Chapter 15
Good Money for Good Work

"Our objective should be to create exchange media issued on the basis of human service and Earth service rather than acquisitiveness and domination."

-- Greco

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

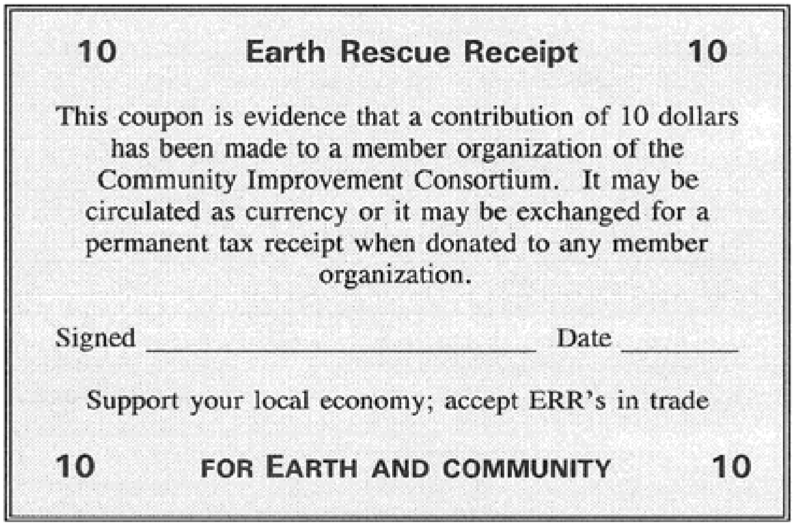
This chapter describes three proposals for achieving that. These proposals have two primary features: (1) the use of local currencies to facilitate trade and (2) the empowerment of groups which are working to serve the common good. Although they are described in terms of circulating certificates or notes, these exchange media could also take the form of credits in a mutual credit system or some combination of account credits and circulating notes.

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

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

Earth Rescue Receipts (ERR's)

Earth Rescue Receipts (ERR's) are paper receipts for contributions made to what we will call "good work" organizations. ERR's would be issued by any organization which is a member of a consortium of mutual aid, social action, community improvement, environmental and other such organizations. These receipts, issued in small denominations, would simply acknowledge the donation of money, materials, equipment or services to a member organization. They would provide evidence that the donor has done "good work." Unlike the usual receipt form used to acknowledge a donation or payment, ERR’s would be printed in standardized denominations, say $5, $10, $20, and $50, and would bear the name and seal of the consortium. When a donor makes a donation, the receipt would be dated and signed and/or validated by the recipient organization and given to the donor. Such a receipt might look like the one shown in Figure 15.1.



10 **Earth Rescue Receipt** 10

This coupon is evidence that a contribution of 10 dollars has been made to a member organization of the Community Improvement Consortium. It may be circulated as currency or it may be exchanged for a permanent tax receipt when donated to any member organization.

Signed ____________________________ Date ________

Support your local economy; accept ERR’s in trade

10 **FOR EARTH AND COMMUNITY** 10

Figure 15.1: Conceptual Rendering of an Earth Rescue Receipt

Except for the standard denominations, the steps described above are much the same as current practice. So what are the key features of the ERR proposal which make it empowering? Well, what if the donor, who now holds the ERR, were able to get something of value for it? Suppose some local businesses were to agree to accept ERR’s in trade? In that case, ERR’s could become a circulating currency. The original donor would not be any poorer for having made the donation, but would simply have "gotten the ball rolling." An ERR would be considered to be a "temporary receipt" (TR) which could be spent. Thus, ERR’s would pass from hand to hand, enabling any number of trades.

Anyone wishing to make a permanent donation would take ERR’s to any organization which is a consortium member and exchange them for a "permanent receipt" (PR) which s/he would hold for tax purposes. [100] This is the means by which ERR’s would be extinguished and go out of circulation. If at any point in time there were an excess of ERR’s in circulation (as evidenced by discounting or refusal of ERR’s in the marketplace), the consortium would suspend further issuance until permanent donations caught up with temporary donations and reduced the amount of ERR’s in circulation to the proper level. Figure 15.2 is a pictorial illustration which shows the process of issuance, circulation, and redemption of Earth Rescue Receipts.

As the positive effects of this process become more evident, more and more people will want to share the burden of community improvement, either by making additional donations to the member organizations, or by accepting ERR’s in trade and in the payment of debts. Growing acceptance of this exchange medium, and the increasing local prosperity which it brings, will encourage greater and greater amounts to be contributed to the "good work" organizations and encourage work which is in the public interest. As the use of ERR's expands and proliferates, this process could largely replace taxation as a means of supporting the common good. Besides providing a local medium of exchange, it would provide a more participatory process for local community finance, eliminating the need for many government expenditures and transfer payments.

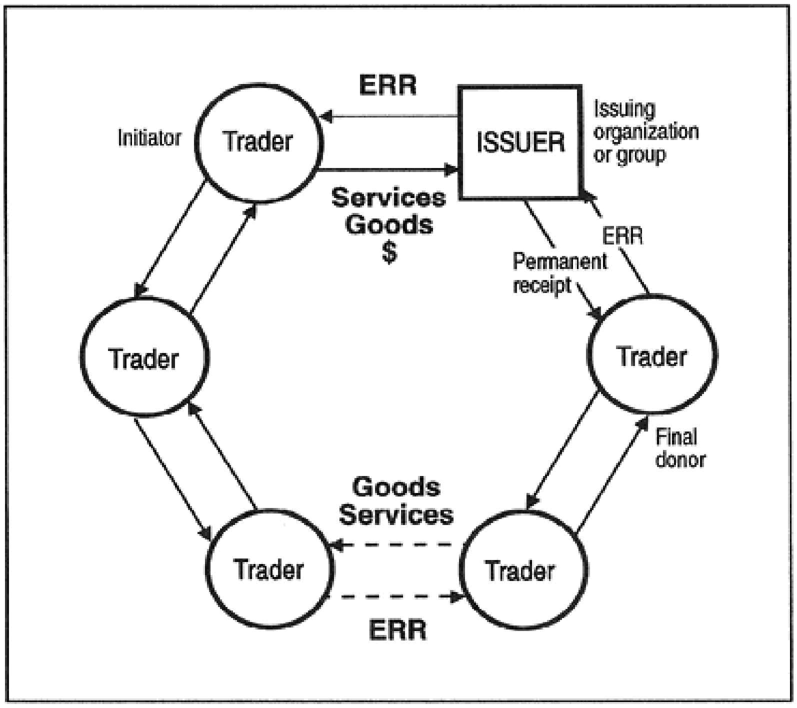


Figure 15.2: The Earth Rescue Receipt Circuit

Questions and Answers:

1. Q. Why would anyone accept Earth Rescue Receipts instead of official currency?
   A. ERR's will be acceptable for three reasons: ERR's will appeal, first to those who support the activities which give rise to their issuance; secondly, to those who can see the benefits which a local currency provides in strengthening the local economy; and thirdly to those who can see that they represent a sound medium of exchange which is spendable in the community.

2. Q. What will make ERR's a sound medium of exchange?
   A. ERR's are not issued arbitrarily. They are issued on the basis of actual contributions of value to a participating organization. Each ERR, therefore, represents a receipt for actual value delivered, either in cash, materials, labor or services. The amount of ERR's issued can never exceed the amount of value delivered. An ERR will circulate only until some holder decides to contribute it back to an issuing organization. At that point a permanent receipt will be issued to the donor, to be held for tax purposes, and the ERR will be retired from circulation until a new donation makes it possible to reissue it.

3. Q. Suppose not enough ERR’s are donated back to member organizations, won’t the amount in circulation keep building up and cause inflation? [101]

   A. That’s an excellent question and it gets to the heart of the monetary problem. The issuance of ERR’s, or any other currency which people are free to discount or refuse, can never cause inflation. Here’s why. First of all, one must understand what inflation is. Inflation is an increase in the general level of prices expressed in terms of the predominant currency unit - in the present case, Federal Reserve "dollars." In the past, the unit of account which we use, the dollar, was defined as a particular weight of gold. Paper notes were issued to represent gold dollars and were convertible, on demand of the holder, into gold, at the bank. When paper notes or bank credits are improperly issued into circulation, the value of all such notes is diluted; people will then prefer to hold gold instead of paper. If they accept paper at all, it will be at a discount, *i.e.* they might accept paper dollar notes but ask a higher price in paper dollars than in gold dollars.

   When money is an object of political control, as it has become in every country of the world, the issuing authorities will attempt to prevent the discounting of their notes and the loss of their gold reserves by redemption. They will refuse to convert the paper currency into gold and declare the notes to be "legal tender." The effect of these measures is to obliterate the value standard and force acceptance of the inferior paper currency. When this happens, sellers have no way of protecting themselves from harm except by raising prices. Without a forced acceptance of the currency, there can be no inflation. Thus, inflation, which consists of higher prices generally, is really a symptom that the market is devaluing the official currency. Since traders are required by law to accept it at face value, the only adjustment they can make is to raise their prices.

   So the answer to your question is that, since ERR’s need not be accepted at face value, an excess of ERR’s in circulation will cause them to be discounted or refused by sellers in the market. If people see this happening, they will tend to ease off on making initial donations of goods and services because the ERR’s they would receive could not be spent for full value. At the other end of the line, permanent donors who can make use of the tax deduction will tend to accept more ERR’s to donate for tax purposes since they can acquire ERR’s more cheaply. For example, if a one dollar ERR is being accepted in the market at only 90 cents, a permanent donor could obtain a $1 tax deduction at a cost of only 90 cents. Whenever the market is free to discount the value of a note (accept it at less than face value), this fact makes that currency system self-adjusting.

   So to sum up, what can happen with an alternative currency is that it might not be accepted at par with the unit of account or official currency. In the past, discounting of private currencies below par has occurred. Such discounting is the result of improper issuance. In the case of Earth Rescue Receipts, the amount issued is strictly determined by the amount of value already donated, which itself is a measure of the community’s willingness to support the activities of the issuing organizations.

   The deciding factor on the amount which will remain in circulation is the time period within which the receipts will be deemed to be valid in trade. This could be six months, a year, or forever. If an expiration date is specified, an ERR would no longer be accepted in trade after that date, but the holder could still exchange it for a permanent receipt and obtain the associated tax deduction. The experience of the market should make the determination as to whether or not an expiration date should be used.

4. Q. How will counterfeiting be avoided?
   A. Effective anti-counterfeiting measures have been well developed over a period of many years. These are commonly employed by governments and issuing banks to protect their currencies. They involve close security over the printing process, special inks and papers, serial numbering, and other measures. There is no reason why these same measures cannot be utilized for local currencies. Beyond that, there are two additional factors which will discourage counterfeiting of a local currency. The limited area within which they are accepted and limited time period within which they would be circulated as a payment medium tend to make counterfeiting unprofitable.

Funded Temporary Receipts (FTR's)

While a local currency system such as the Earth Rescue Receipts described above might approach more closely the ideals for monetary transformation set forth previously, a funded local currency might be initially more acceptable and less vulnerable to official interference. It would probably provide better tax advantages to donors under current IRS regulations. It would be similar in many ways to the Earth Rescue Receipts and could work as follows:

1. A consortium of non-profit, social action and community improvement groups could begin a program under which a trustee would accept, on behalf of its members as a group, deposits of official money from any benefactor.

2. These deposits would constitute an endowment fund which would be invested in ways which would provide income in official currency to help the organizations meet their cash needs. It might be wise to invest these funds only in direct obligations of the U.S. Treasury, *i.e.* government bills, notes and bonds. [102] Alternatively, the funds might be invested in securities of quasi-governmental agencies such as the Government National Mortgage Association (GNMA) and Federal Farm Credit Bank, which might use them in more socially responsible ways.

3. These deposits would be non-refundable to the depositor; instead, the consortium would issue to the depositor "funded temporary receipts" (FTR's) in standard small denominations, say $5, $10, $20, and $50. FTR's would bear the name and seal of the consortium.

4. These FTR's would be spendable with any business or individual willing to accept them.

5. FTR's would thus circulate as currency.

6. Any individual wishing to make a permanent contribution to any member organization of the consortium could do so by delivering FTR's to that organization.

7. The organization would then issue to the donor a permanent receipt (PR) for tax

purposes, allowing the donor to receive a tax deduction for his/her contribution.

8. Such contributions would certainly be tax-deductible because they represent the final action in conveying to the recipient organization entitlement to the deposit of official money. [103]

9. Only recipient organizations which are members of the "good work" consortium would be allowed to redeem the temporary receipts for official currency (draw official money out of the endowment pool), and only to a limited extent, preserving most or all of the principal and allowing only the income to be spent. [104]

10. Interest earned on the Treasury investments would accrue to the consortium and be credited to the members' accounts in proportion to the amount in "funded temporary receipts" donated to each organization in the given period. Thus, the organizations which are most strongly supported by the community will receive the greater portion of the investment earnings, as well.

11. Organizations which are consortium members need not use the temporary receipts (FTR's) which they receive as donations to draw official money out of the pool, but instead may choose to spend them back into circulation, using them to pay employees and suppliers. Likewise, any interest income credited to its account, instead of being withdrawn in dollar currency, could be left on deposit and used as the basis for spending an equivalent amount of FTR's into circulation. Figure 15.3 is a pictorial illustration of the process.

Questions and Answers:

1. Q. What's the point of this project?
   A. There are several beneficial results which can be expected from the implementation of this project. The main objective though is to shift the bulk of human effort away from conspicuous consumption, waste and the production of war materiel, toward "good work" which addresses human needs and the needs of the planet.

2. Q. How does this plan achieve that?
   A. First, by encouraging the support of organizations which are taking action toward positive change, and secondly, by partially substituting a democratic, locally-controlled, asset-based exchange medium in place of the official monopolized, centrally-controlled, debt-based exchange medium.

3. Q. Well, how does that work?
   A. It encourages the support of "good work" organizations by reason of the fact that the original depositor need not necessarily be the ultimate donor, but s/he may be able to spend the FTR's which s/he receives in return for making a deposit. The process of donation is begun when the deposit is made and temporary receipts (FTR's) issued, but completed only when the FTR's are delivered by the ultimate donor back to some participating organization. Thus, anyone with a dollar can "get the ball rolling" without making any financial sacrifice at all, except to forego the potential interest income on the money deposited. But if a donor is relatively poor and needs to spend the money

instead of investing it anyway, this represents no loss to him/her. Yet, it does result in a gain for the consortium group. In effect, the official currency becomes a capital pool earning income for the "good work" organizations; even the poor are empowered to be philanthropic; and the community is provided with a democratic, locally controlled, life-supporting medium of exchange.

This approach could ultimately transform the entire official money supply into an endowment fund for good work. Further, it allows the supporters of good work, as a group, to maximize their collective tax advantage. Those who can make the best use of the tax deduction will be the ones who make the ultimate donations (of FTR's).

In the existing system of money and finance, money is first allocated to those enterprises which promise the greatest monetary return, or to those mandated by the existing power structure -- mega-corporations, government bureaucracies, military establishments, land and corporate speculators. Under the proposed system, the allocation priorities are reversed. It puts positive change and public service groups first instead of last in the allocation of funds, and empowers the realization of popular values, not just those of the rich and powerful. It may help to fulfill the prediction that "...(the) first shall be last, and the last first." [105]

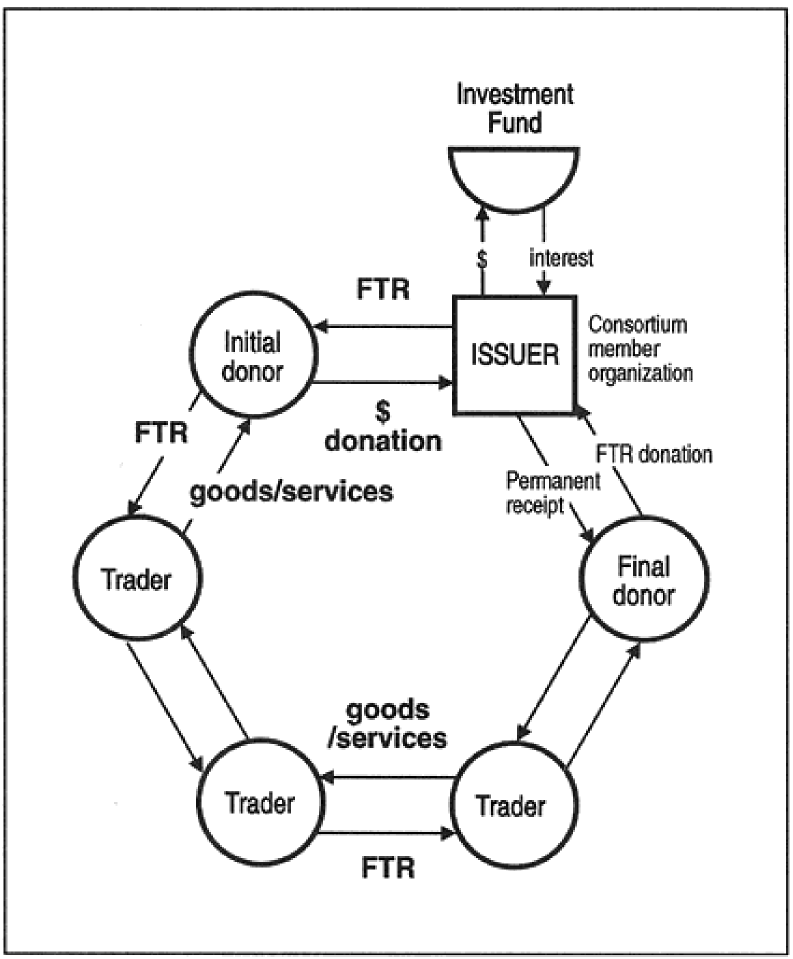


Figure 15.3: The Funded Temporary Receipt (FTR) Circuit

4. Q. Can other organizations join the consortium after it is initially formed?
   A. Yes. Any organization wishing to participate may be admitted to the consortium by agreeing to the terms of membership.

5. Q. What if an organization is philosophically opposed to those already in it?
   A. In the spirit of conviviality, no non-profit organization should be excluded. Nor are exclusionary qualifications necessary because an organization can directly benefit only to the extent that people make donations of FTR's to it. Thus, membership in the consortium in itself does not provide any direct financial benefit to an organization; it benefits only to the extent that it has popular support and receives donations of FTR's.

Cooperative Community Service Credits

A Cooperative Community Service Credit system provides another way of mobilizing resources to serve community needs. It too is similar to the Earth Rescue Receipt, but focuses more specifically on volunteer services and specific projects. There is always a limit to the amount of time and energy which volunteers can afford to donate. A service credit system attempts to transcend the limitations of reliance upon volunteer service by acknowledging the value of services rendered, without the payment of scarce money, but by issuing service credit receipts. Businesses, as well as individuals, in the community could be encouraged to accept service credits in partial or full payment for the goods and services they offer for sale. The issuing organization(s), then, would accept the receipts from others either as donations or in payment for some of the services it provides.

How it Might Work

Let's consider a possible example. Let's call the value unit in this system a "SERV." A SERV would be equivalent to one dollar's worth of service. A group of social action, community, environmental, self-help, and mutual-aid organizations might agree to jointly publish a periodical for education and outreach. All work would be paid in service credit receipts (SERVS) redeemable by the publication for copy space in the publication, advertising, and other related services, such as typesetting, layout, mailing list management, etc. The more space a member organization wants in the magazine, the more service credit receipts it must deliver to the consortium. It can get them as donations, or earn them by doing work on the publication, or by selling some of its services. Figure 15.4 shows the creation and circulation of Cooperative Community Service Credits.

Businesses can earn SERVS by accepting them in trade, either from the individuals who have earned them by working on the publication, or from other businesses which have accepted them in payment. The businesses can then donate the receipts to any member organization, or use them to pay for advertising in the publication. Businesses, by accepting the receipts in partial payment for their goods and services, would stimulate their own business just as the use of a discount coupon does, but unlike a discount coupon, service credit receipts can be passed along (spent) for value, or donated to promote activities of benefit to the community. Such a system might be started by making an announcement like the following.

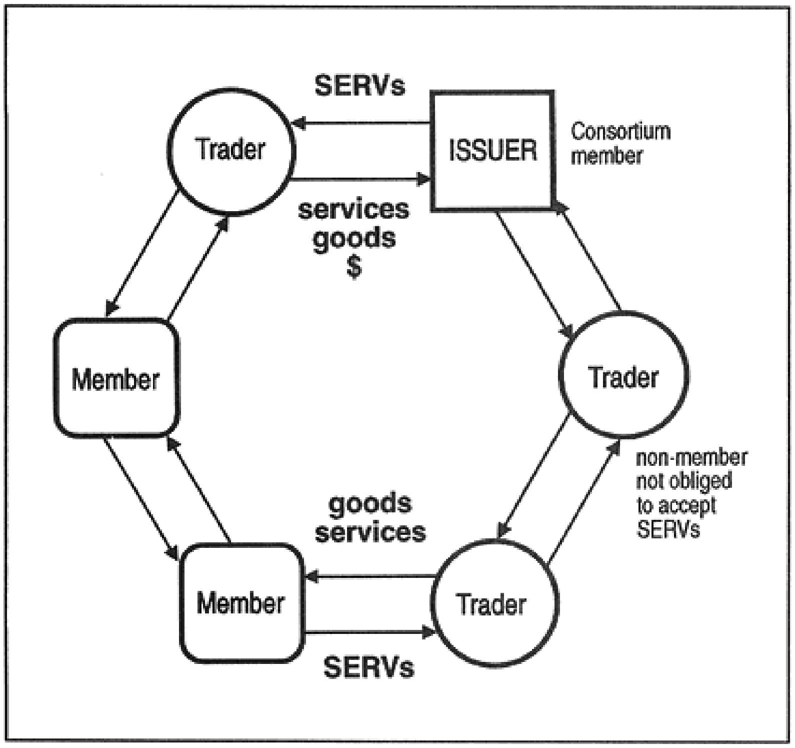


Figure 15.4: The Cooperative Community Service Credit (SERV) Circuit

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ANNOUNCEMENT

YOUR CHANCE TO SUPPORT A HEALTHY COMMUNITY AND A CLEAN ENVIRONMENT

ANNOUNCING PUBLICATION OF THE *COMMUNITY WEEKLY*

All of our workers are paid for their work in "service credits," or "SERVS." You can support them and our publication by accepting our service credit receipts as you would your own discount coupons, for, say 20%, 30%, 50%, or more, off your regular prices. But, unlike discount coupons, service credit receipts can be used by you to buy things you need. You yourself can spend SERVS for goods and services offered by other participating businesses, or you can use them to buy valuable advertising in our magazine, *COMMUNITY WEEKLY*. You can also use SERVS to pay for our typesetting, design, and layout services. We can do your advertising flyers, menus, business cards, or forms. Or, you might prefer to donate SERVS to any of our member organizations which you might wish to support.

Call today and let us add you to our list of participating businesses. We will periodically publish this list in our magazine, indicating for each business, the percentage of payment which it accepts in SERVS. The higher the percentage, the more business you'll attract. And remember, it costs you nothing, because you, in turn, can spend the SERVS you accept. By accepting *COMMUNITY WEEKLY* service credits, you'll be helping the magazine to improve the community and you'll be boosting your own business. EVERYBODY WINS!

Each business would sign an agreement form such as the one below:

___(Name of business)___ agrees to accept ___(Name of consortium/publication)___ service credit receipts (SERVS) in partial payment for all products and services which it offers, to the extent of _____% of the purchase price. ___(Name of consortium/publication)__ agrees to accept its own service credit receipts at face value in payment for advertising or other services which it customarily offers, to the extent of _____% of its standard fees.

This agreement may be canceled by either party at any time upon written notice.

Signed___________________________ Date________

Signed___________________________ Date________

Chapter 16
A Model Composite Local Exchange System

Any sizeable group anywhere, any day, could start a nonpolitical monetary unit and system. There is no law against it, and no legislation need be invoked.

-- E. C. Riegel [106]

My work with LETSonora, the cashless trading system in southeastern Arizona, has provided an opportunity to experiment with various approaches and system enhancements. Although there is no single community exchange model which I consider to be adequate, there are several which contain useful elements. If we keep in mind the fundamental principles of equity, freedom and inclusiveness, and equip ourselves with sound theoretical knowledge, we can continue our approach toward an ideal exchange system. I am presently inclined to favor a composite system which incorporates several of the ideas discussed in previous chapters. Given the current state of the art in the development of complementary exchange systems, I would recommend that a local exchange system be established according to the following guidelines:

1. Organize the system as a non-profit organization (it need not be legally incorporated, but larger operations should be).

2. Allow membership to be open to include individuals, non-profit organizations, and businesses.

3. Organize the system as a mutual credit system, but provide for the use of circulating notes, coupons, or receipts as an option to the transfer of credits through the ledger accounts.

4. Avoid charging interest on debit balances. Service charges should be fixed amounts based on the cost of the services rendered. If system charges are levied against account balances, they should be assessed equally on **both** debit **and** credit balances.

5. Elect a Board of Overseers, whose powers are limited and clearly defined at the outset.

6. Establish credit (debit balance) limits for members according to a definite formula involving the member's average level of sales.

7. Do not provide the option of redemption of local currencies or credits in official currencies (dollars).

As has been stated previously, banking should be conducted as a profession, not run as a business for profit. To avoid conflicts of interest in the operation of a local exchange system, it should be established as a cooperative or mutual association, "owned" by its members and run entirely for the benefit of the community. Since membership is open to everyone, there should be no problem with regard to representing and safeguarding the public interest.

Many LETS systems, in which the membership has consisted of only individuals, have been slow to grow. While LETS membership is open to businesses, LETS systems have not generally been very successful in attracting them. I believe it is very important to make a concerted effort to include established businesses, as well as individual members, in the start-up of a local exchange system. Established businesses, in addition to their name recognition, offer a wider range of goods and services and a greater volume of trading. Since they already are significant players in the local economy, business members provide local exchange systems with the prospect of a faster start and greater impact. The success of *Ithaca HOURS* is, I believe, mainly due to the extensive participation of local businesses.

The Governing Board

A local exchange system, whether it be simply a ledger system, a paper currency issue, or some combination of the two, requires some administrative group or authority. It is very important that the administrative Board be constrained in its power. No matter how well intentioned the people might be, "power corrupts," as we have so often seen. That's the basic problem with the existing monetary and governmental structures. The Board should have very little discretion. Its function should be to establish the basic ground rules at the outset, monitor the members' adherence to their agreements, and take the appropriate prescribed action in the event they do not. The Board would provide application forms to prospective members and oversee the processing of applications, verifying the information upon which each member's participation and debit limits are based (specifically, his/her average monthly sales volume and cost of goods sold and/or value added).

Credit Limits for Members

One of the fundamental questions in a local exchange system is that of how much credit to authorize to each individual or business member, *i.e.*, how large a debit balance each member should be allowed to carry. For ease of discussion, let us refer to any unit of local trade credit as a "Riegel," after E.C. Riegel, one of the most lucid thinkers on the question of money. The number of Riegels or local trade units which a business or individual is expected to redeem in the course of trade each month should be the only basis for deciding the amount of credit to be authorized, and it should be based on a formula relationship such as the one described in a previous chapter. That formula is based on the following rationale:

1. The member business itself decides what percentage of each sale to accept in Riegels, based on its proportion of "value added." Thus, a business which has a cost of goods sold of 60% (gross margin of 40%) and a net profit margin of 20% of sales, could choose to accept a percentage of Riegels anywhere in between 20 and 40 percent, depending on how much of their administrative costs they expect to be able to pay for with Riegels. One might expect them to start with the lower figure to be safe, then increase it as experience merits. There is no apparent reason for the Board to have any say about this percentage.

2. Adherents of the "German school" have pointed out that a viable currency should have a 1% daily reflux. That means that the whole volume of currency must flow back to the issuers within about a 100 day period. It might be prudent to agree, at least initially, to have a total reflux within a 60 day period. That means each member business could be authorized to issue an amount of Riegels up to the amount it would be expected to redeem in trade during an average 60 day period (2 months). That's a simple formula calculation:

   Authorized Credit, Riegels =
   (2 x monthly sales) x (Riegel payment percentage)

   EXAMPLE

   If a business has monthly sales of $80,000 and agrees to accept 20% payment in Riegels, it would be authorized to issue a total of 32,000 Riegels:

   32,000 Riegels = (2 x $80,000) x (.20)

3. A member business should be allowed to adjust the percentage up or down as it sees fit, up to the limit of its value added percentage. [107] If up, it would be authorized to issue more Riegels in accordance with the formula. If a business ever wanted to decrease its percentage, or drop out completely, all it would need to do is repay the

difference in the amount of Riegels it was authorized to issue. If it did not have enough Riegels to do that, it would have to earn them in trade, or it could be allowed to pay the remainder in any mutually agreed upon medium of exchange, presumably official currency.

Employee Participation

Employees of member businesses should be encouraged to become associate members. They would agree to accept a particular percentage of their wages in Riegels. In return, they might be allowed, themselves, to issue (spend into circulation) an amount of Riegels computed in the same way as the business authorization is determined.

EXAMPLE

If an employee earning $1,000 a month agrees to accept 30% of her salary in Riegels, she could be allowed to issue (spend) up to a total of 600 Riegels. (She would also be getting 300 Riegels a month in her pay envelope, but these are Riegels she earns, not issues.)

Employees will, no doubt, want to jump on the bandwagon when they see the system working. As unemployment becomes more of a problem, and official money becomes less available, people will probably be willing to work for most any kind of money which they deem to be trustworthy. As we have seen in previous chapters, when there is not enough official currency circulating in the local economy, a local currency can put people to work and provide a means by which they can get their needs met.

Ledger Accounts or Paper Notes?

Conceptually, it doesn't matter whether the Riegels take the form of paper notes, tokens, or ledger balances (bookkeeping entries). These are all symbolic representations of the same thing -- the values being exchanged, and each is "backed" by the same commitment of the issuers to redeem them -- so checks and notes and electronic transfers can all be used interchangeably, as they are in the official monetary system.

Convertibility of Local Currency to Official Currency

The basic idea of a local currency is to empower people by allowing them to issue currency on the basis of the goods and services they have to offer, *i.e.* to monetize their own labor. It is hoped and expected that as the merits of local currencies and exchange become more apparent, they will, to a large extent, supplant the official currency. As this happens, one needs to consider the possible need to covert dollars to Riegels or Riegels to dollars.

It is unlikely that there will be much demand for conversion of official dollars to Riegels so long as dollars are accepted at par along with Riegels as payment for purchases within the system. The situation is similar to current foreign exchange transactions. For example, when someone from the U.S. crosses the border into Mexico to shop, they must deal with the fact that the official currency there is different from the one here, and that most items are priced in terms of "pesos." In practice, at least in the border areas, few people bother to buy pesos because the merchants almost universally accept dollars. The key issue is the exchange rate which one can get. In the case cited, the U.S. shopper can often get the same exchange rate or better (more pesos per dollar) from a merchant as s/he can get from the banks.

In the local currency case there is even less reason to convert dollars to local currency, for if the local currency is denominated in dollars, the member merchants are committed to accept it at par with the dollar, *i.e.* the exchange rate is always fixed (by the local issuing cooperative) at 1 for 1.

However, going the other way is a different matter. People prefer to hold dollars rather than pesos because the dollar has been debased less rapidly, *i.e.* the inflation rate in pesos has typically been much greater than the inflation rate in dollars. In other words, although the Federal Reserve has been irresponsible in its issuance of U.S. currency, the Mexican central bank has been even more irresponsible, making the holding of dollars a better inflation hedge than the holding of pesos.

If a local currency is properly issued, it should hold its value better than the dollar, but if it is denominated in dollars instead of another standard, its value will tend to change in parallel to that of the dollar. The need to exchange local currency for official currency would arise from the need for goods and services imported from outside the local system, *i.e.*, not available within the system. That is why the amount of local currency issued must be restricted, so it doesn't outrun the capacity of the local economy to produce value in the forms demanded within the local markets. The supply of Riegels needs to rise and fall **automatically** in accordance with changes in the multitude of factors which affect the local economy. Gearing the supply to the local value added, which the above formula does, assures that this will happen. The local currency needs to be insulated, as much as possible, from the adverse effects arising from manipulation of the official currency.

Two Meanings of "Dollar"

It is extremely important to distinguish between the use of the word "dollar," on the one hand to describe a unit of measure of value and, on the other, its use to describe the money issued by the Federal Reserve (the FED), either in the form of bank credit or as Federal Reserve Notes. Local exchange systems, while freeing people from using dollars, *i.e.* Federal Reserve money, typically use the dollar unit to measure the value of things traded. This makes sense because the dollar unit of measure is the unit which everyone is accustomed to using; it has meaning to people. The only problem with doing this is the fact that the dollar unit of measure is no longer defined in concrete terms. It used to be officially defined as so much fine gold, but that was abandoned long ago. The dollar is now a "rubber measuring stick" defined only by what it will buy in the market, and what it will buy in the market has been continually diminishing because of irresponsible issuance of money by the FED. That is the essence of general price inflation.

Using the dollar unit of measure, then, as a basis for valuing things creates a problem of comparability over time. A "dollar" today is not what it was yesterday, and a "dollar" tomorrow will most assuredly not be what it is today. But so long as the local currency is used only as a medium of exchange and not as a store of value, this lack of comparability over time is not much of a problem. Ideally, all currencies and exchange media should be defined in terms of some concrete standard which would establish their value along with the value of everything else being traded. [108] The existence of such a standard would make abuse and mismanagement of currencies readily apparent and allow fair exchange rates to be easily determined. It can be hoped that in the not too distant future, some organization or group will take the initiative in defining a standard of this type. Until such time, there is little choice but to use available measures. It is possible, however, to define local standards based upon some commodity (or group of commodities) important in local commerce, such as a bushel of wheat, a kilo of rice, or a pound of copper, and there is considerable historical precedent for doing so.

Another option would be to use some other concept for valuing the things traded. Ithaca’s use of the "Hour" unit is a good example. While an "Hour" is not precisely defined, people tend to think of it as having a value more or less equal to the local average hourly wage. This is what the Ithaca founders encourage, and this is what seems to be happening in practice. *Ithaca Hours* currently exchange among traders for value equivalent to about 10 dollars.

Using the hour concept instead of the dollar concept for valuing exchanges, would probably be effective in de-coupling the value of the local currency from that of the official currency. As the dollar continues to be debased, hourly wages should rise, and, one might expect, the value of the Hour currency, in terms of dollars, to rise also.

Over-accumulation -- Is It a Problem?

The question has been raised, "What if a member business has an over-accumulation of Riegels?" The answer to this lies in another question, "Why would there ever be an over-accumulation of Riegels?" A local currency, in its sole role of exchange medium, should be spent as fast as it is taken in. If a member business finds that there is not sufficient opportunity to spend Riegels on the things it needs, that would indicate that it overestimated either, (1) the value added component of its business or, (2) the willingness and/or ability of others in the community to accept Riegels. It’s logical response, in either case, should be to reduce the percentage of Riegels which it is willing to accept in payment, and to use its surplus (accumulated) Riegels to reduce its commitment to the association by turning them in. This is the proper adjustment mechanism which makes the system self-regulating.

Limited or Perpetual Life?

Having a "periodic recall" feature is one way of addressing the problem of keeping the Riegels an exchange medium and limiting their use as a savings or value storage medium. As I pointed out in Part III of my book, *Money and Debt: A Solution to the Global Crisis*, I think it is very important to segregate these two functions. It is still not entirely clear how best to do this. One way to do it is to have the local currency notes expire after a certain length of time, say one year. They could all expire on the same date or the expiration dates could be staggered. Having them all expire on the same date would be too disruptive. A period of several days would have to be allowed for an orderly process of exchange to take place. Given that fact, one might just as well stretch out the time period and make it even easier by having a fraction of the issue expire each week or month throughout the year.

Comparing expiration to "demurrage," expiration can be looked at as 100% demurrage, which can, however, be avoided by spending the notes before they expire. Only members of the issuing cooperative would be unable to avoid having to exchange old notes for new. The inconvenience of having to make the exchange would probably be sufficient incentive for most (non-member) individuals to try to spend a note before expiration, even if new notes were given for old on a 1-for-1 basis. A small redemption fee might provide a further impetus for circulation.

Even as I write this, however, I'm not sure that an expiring note would work well in practice. The general public might dislike having to remain cognizant of the expiration dates of notes they hold, or taking the risk of losing out by having a note expire while in their possession. It might be best to first try a note issue which has no expiration date, or if expiration is a feature, expired notes might still hold some value, say 70% of face value, and be exchangeable for new notes at that rate.

If expiration of notes is a feature of the system, we need to consider two possibilities: (1) a member returns fewer notes than he was issued, or (2) he returns more notes than he was issued. Those members who return too few Riegels could be asked to pay the balance in dollars, or they could simply be given a smaller number of new notes to spend in the next period. However, those who return too many Riegels should **not** receive dollars for the excess. To do so would be fraught with problems, and would be counter-productive to the intention to substitute, in part, the circulation of official currency with the circulation of the local currency. They should simply be given the option of receiving new notes in an amount equivalent to the old notes surrendered and, if desired, to reduce the percentage of local currency that they agree to accept in payment for purchases in the future.

Should Interest be Charged on Balances?

In accordance with the principles outlined earlier, there should be no interest charged on lines of credit or notes issued to members. Since no one has made any sacrifice, there is no entitlement to interest. The costs of operating the system should be borne by all members in proportion to the benefits they derive from using the system. With this in mind, it makes sense to levy membership fees in proportion to the amount of notes issued to each member. This may look like interest but it is not. The association, after all, is not a profit-making entity and it need only collect enough to cover the costs of operating the system.

There's no reason, of course, why a ledger system can not operate in conjunction with a local currency. That's precisely what the LETSonora system does. LETSonora started as a typical LETS system with a computerized ledger system and a telephone answering system for reporting transactions to the registrar. In an attempt to make the reporting of transactions more efficient, transaction record forms similar to bank checks were later developed. These transaction record forms would be filled out like a check and given to the seller who would then deliver them to the registrar to have the credit recorded. Finally, to further reduce the bookkeeping burden, circulating notes were issued. Figures 16.2 and 16.1 show the front and reverse sides, respectively, of a LETS Receipt used by LETSonora.

The mechanics of these options are essentially the same as present banking practice, in which a member can either "deposit" credits (get a credit to his/her LETS account) or take them in the form of paper notes. Similar approaches are also being taken elsewhere.

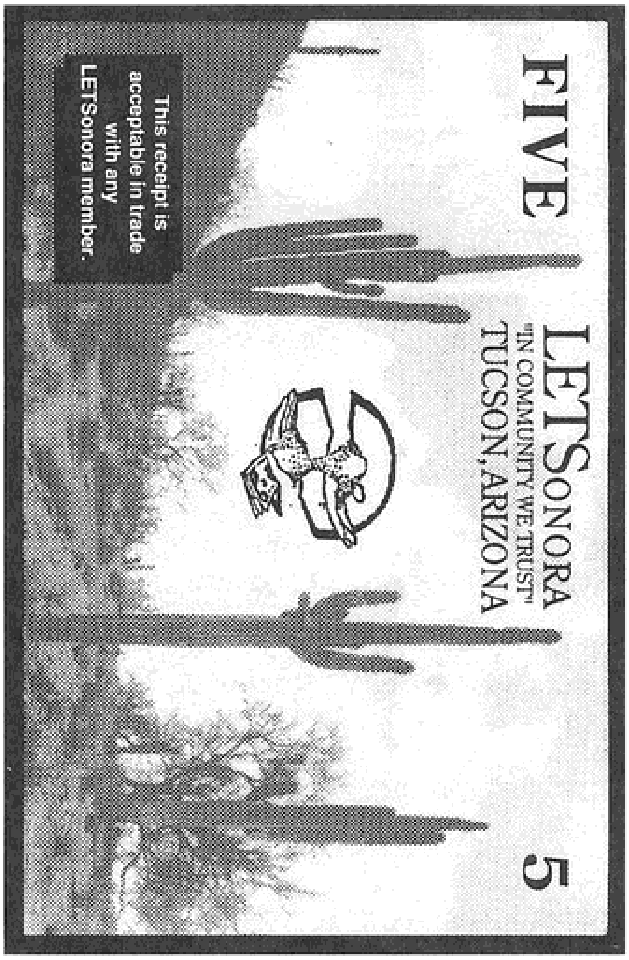

Figure 16.2: A LETSonora Receipt -- Face Side

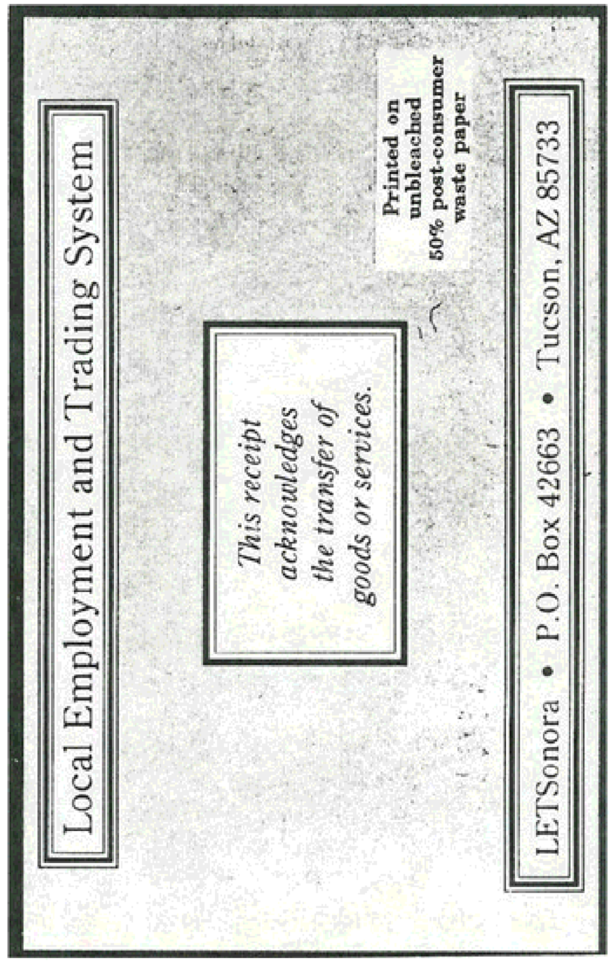

Figure 16.1: A LETSonora Receipt -- Reverse Side

As the dominant institutions of industrial civilization continue to decay, and as more people find themselves pushed to the margins of the money economy, pressure will build for the implementation of alternatives. True democracy can only be forged within the economic realm, and money and exchange are the key elements which must be democratized. Local currency and exchange systems that are equitable and just will be essential in assuring that the transition will be smooth and peaceful.

Appendix A:
Note on Banking as a Profession and Its Reform

This note is based on material contained in an article, "The Nature of Banking" by Dr. Ralph Borsodi, which appeared in *Green Revolution*, Vol. 34, No. 10, December 1977, published by the School of Living, RD1, Box 185A, Cochranville, PA 19330.

Borsodi outlines the following principles which he sees as necessary in reforming the banking profession.

1. "Banking is a profession and not a business. The Banker, like the lawyer and the doctor, unless he stultifies himself, must put the trust reposed in him before anything else. We entrust our health and even our lives to our doctor. We entrust vital rights and our material interests to our lawyer. We entrust our money and our savings to our banker. The banker is a trustee, and he has not more moral right to exploit the funds entrusted to him than a doctor has the right to exploit the sickness of his patients, or a lawyer the difficulties of his clients. *Professional compensation is one thing, but maximizing profits is something altogether different* [emphasis added].

2. Bankers, like lawyers and doctors, should therefore be licensed and only those qualified to study (usually at an accredited university) and who observe professional standards both in their practice and in their charges for their services, should be permitted by law to engage in banking. [109]

3. The banker, by the essential nature of the service he renders, is a fiduciary trustee. It is malpractice for him to do anything with the funds entrusted to him which he ought to know should not be done with them, just as it is malpractice for a doctor to prescribe treatments which he ought to know endanger the health of his patients. Nobody, no matter how great the profit, has a moral right to betray those who trust him. It is betrayal to exploit the opportunity for profit which trust in his integrity creates.

4. Bankers should not be granted charters to operate banks as business corporations; they should not be legally authorized to earn profits for stockholders because corporations limit the liabilities of those who own them. In practice the law makes it virtually impossible to hold corporate officers and directors liable for what I am calling malpractice.

   Banks should be owned and operated by sole proprietors, by partnerships, by mutual and cooperative associations; and all those who own them and conduct them should be personally responsible and accountable for the safety of the funds entrusted to them. All laws which exempt bankers, as would be true of all laws which exempted any kind of professional person from full liability for his or her practices, are morally null and void."

Borsodi also enumerates a number of measures which he thinks would eliminate inflation, reduce unemployment, end the boom and bust business cycle, reduce speculation, provide for the capital needs of the local community, and prevent the government "from using the banks of the nation to indulge in its present extravagances by forcing them to finance its deficits."

He argues that, if the following measures were taken, *the whole moral climate of the economy would be transformed*:

1. "Bankers, as professionals, should ensure both the safety and proper use of the funds entrusted to them.

2. Professional bankers should see to it that the funds entrusted to them be used only to facilitate commerce.

3. Professional bankers should give priority to financing local needs before investing in projects outside the community.

4. Professional bankers should take over the whole field of investment, taking it 'out of the hands of the so-called investment bankers of Wall Street.'"

It is encouraging to note some movement in this direction by a few "enlightened" bankers. There are some notable examples of banks which, while still operating under the umbrella of the corporate charter, have acted to implement some of the above proposals, especially the financing of local needs. Among these are the South Shore Bank in Chicago and the Community Capital Bank of Brooklyn. Besides these, there are dozens of non-bank community loan funds springing up all over the country. For more information about these, contact the National Association of Community Development Loan Funds, P.O. Box 40085, Philadelphia, PA 19106.

Appendix B:
Note on the Proper Basis of Issue For Currency and the Means of Financing Capital Investments and Consumer Durables [110]

At any given time, there is flow of goods and services coming to market. The problem which the instrument called money seeks to solve is to provide each person who has a part in its production with a means of acquiring his/her share of the total value. Col. Harwood describes the typical money creation process which prevailed prior to World War I. While banking had serious problems even then, sound principles on the basis of issue were still being followed by most of the larger banks.

> "As a manufacturer shipped completed things to market, he would prepare a document describing the shipment, take it to his bank, and borrow purchasing media that, in practical effect represented the things en route to market. The bank made the loan by crediting an appropriate amount to the checking account of the manufacturer, but this amount was not deducted from other checking account liabilities of the bank. Thus new purchasing media were created and were placed in circulation when the manufacturer used the addition to his checking account to pay wages, salaries, suppliers, and other costs of processing the things sent to market. (As the things were sold, the receipts from sales were used to repay the bank loan by having that amount deducted from the manufacturer's account. Thus the purchasing media created for temporary use were withdrawn when their purpose had been served.)
>
> "Those who received the newly issued purchasing media from the manufacturer then could choose whatever they wanted that the markets offered... The procedure described above has been modified in recent decades as mass production has developed on a broader scale and now occurs almost continuously throughout the year. ...
>
> "The automobile manufacturer arranges with a commercial bank for a 'line of credit' and gives a promissory note that may be paid off only once each year during the model changeover period when no cars are en rout to markets. Thus a series of loans continually being repaid as cars are sold is replaced by a single borrowing resulting in the creation of purchasing media that remain in circulation as long as the flow of cars to markets continues...
>
> "As commercial banking developed, especially in the United States, two quite different functions have been performed by the same institutions. In addition to the commercial banking function already described, most banks performed an investment function, accepting saved purchasing media and investing it.
>
> "The borrower from the bank in the savings-investment transaction is *not* at that time sending to or otherwise offering things of equal value in the markets to be sold. He does not desire purchasing media so that he may distribute it to employees and suppliers who participated in preparing things *for* the markets. His desire is to claim things *from* the markets, either equipment for his factory or

> a new car for personal use, or any of the multitude of other things available, such as new bricks for construction of a factory, etc. Consequently, the bank should not create new purchasing media for such a borrower but should lend him purchasing media already in existence that some present owner or owners save and deposit in the bank.
>
> "Probably because the same banks have been performing two functions, each of which involves lender-borrower transactions, similar forms (such as promissory notes), and related procedures, many bankers have confused the two functions. .. In the first type of procedure, the new purchasing media created represented the exchange value of things en route to or being offered for sale in the local markets; however, in the second, the new purchasing media represented things (such as land, factories, or consumer goods) not being offered by the borrowers for sale but on the contrary being removed by them from the markets.
>
> "Perhaps the clearest example of the confusion between commercial and non-commercial banking is provided by the financing of automobiles in or en route to markets in contrast with consumer installment borrowing to purchase a new car. The important distinction that makes all the difference between sound and unsound commercial banking is:
>
> a. When an automobile manufacturer borrows newly created purchasing media and distributes them to employees, suppliers, and others, he is arranging for those potential buyers to obtain their shares (in dollar value) of things in or en route to markets.
>
> b. When an installment buyer arranges to purchase a car [with money he/she borrows], he is not claiming a share corresponding to his participation in producing things for markets, he is claiming someone else's share." [In order for this to be possible, someone else must be willing to forego claiming his share for the term of the loan, *i.e.* be desirous of saving his share rather than spending it. -- t.g.]
>
> "Thus, one can see that a bank's lending transaction may reflect additional things offered in the markets *or it may not*. If it does, creation of new purchasing media (for use until retired by repayment of the loan by the seller) is sound commercial banking. If the lending transaction does *not reflect additional* offerings in the markets, it should be financed by the savings-investment procedures."

The above makes clear that there are two very different things going on in commercial banking. Commercial banks have the primary responsibility of issuing new money into circulation, which they do by making loans. They also act as depositories, accepting deposits of existing money which people and businesses wish to save. This money is held as "reserves" against which new loans are made. Much of the problem seems to stem from confusion caused by the fact that the terminology, forms and procedures for the two functions are the same. It would probably be best to completely divorce the creation of new exchange media from any association with the borrowing-lending process.

Sources and Resources

Contacts -- U.S. and Canada

COMMUNITY INFORMATION RESOURCE CENTER
P.O. Box 42663
Tucson, AZ 85733
circ2.home.mindspring.com
CIRC can also be reached on-line via MCI mail:CIRC.
as well as with the e-mail address of: circ2 [at] mindspring [dot] com

Operating as a project of NEST, Inc., an Arizona non-profit, tax-exempt corporation, CIRC seeks to promote community health and positive change by supporting the emergence of mutual support structures, participatory democracy, local self-reliance, appropriate technology, sustainable living, and micro-enterprise.

CIRC is a networking hub, an information source, and a support organization. It provides organizing assistance, administrative support, instruction, access to computer and telecommunications technologies, opinion and market surveys, interdisciplinary research, and data analysis. Besides it regional activities, CIRC networks nationally and globally with groups concerned with intentional community, community economics, appropriate technology, right-livelihood, and sustainable living.

School of Living
RD 1, Box 185A
Cochranville, PA 19330
www.s-o-l.org

Since 1934, the School of Living has been promoting right-livelihood, decentralism, social justice, sustainable economics, communities, and cooperative self-reliance. It publishes a quarterly journal, the *Green Revolution*.

E.F. Schumacher Society
RD 3, Box 76
Great Barrington, MA 01230
www.smallisbeautiful.org

Founded in memory of the author of *Small is Beautiful*, the Schumacher Society, like the School of Living, works to foster appropriate technology, human scale, and right-livelihood.

Ithaca MONEY
Box 6578
Ithaca, NY 14851

Ithaca MONEY is a tabloid newspaper which issues *Ithaca HOUR* notes to its advertisers. It provides information about local exchange and self-help options. Communities wishing to institute similar programs can obtain a "Home Town Money Starter Kit" for $25 or 2 1/2 *Ithaca HOURS*. The kit includes "all start-up and maintenance procedures, forms, laws, news articles, computer programs, updates and an *Ithaca MONEY* subscription.

Boulder Barter Network
P.O. Box 441
Boulder, CO 80306

Operates in a manner similar to *Ithaca MONEY*. Publishes a tabloid newspaper called the *Boulder Barter Directory*, and issues circulating *Boulder HOUR* notes.

Time Dollar Network
P.O. Box 42160
Washington, DC 20015
Tel.: (202) 686-5200

National clearinghouse for information about service credit/time dollar programs, including a directory and organizing assistance.

National Association of Community Development Loan Funds
P.O. Box 40085
Philadelphia, PA 19106

Provides information about and directory of Community Development Loan Funds.

EcoNet/PeaceNet
Institute for Global Communications
18 De Boom Street
San Francisco, CA 94107
Tel.: (415) 442-0220

Provides facilities for telecommunications networking. If you have a personal computer and a modem, you have the world at your fingertips. EcoNet and PeaceNet provide access via electronic mail to subscribers of various networks around the world. It also maintains public conferences on hundreds of topics, which provide valuable information and discussion opportunities. EcoNet includes two conferences which provide on-going dialogue opportunities relating to LETS system developments. Can.lets and oz.lets focus on developments in Canada and Australia, respectively.

In Canada, these same conferences can be accessed through the WEB. Contact:
WEB
401 Richmond St. W., Suite 104

Toronto, ON M5V 3A8, Canada
Tel.: (416) 596-0212

LANDSMAN COMMUNITY SERVICES, LTD.
1600 Embelton Cres.
Courtenay, BC V9N 6N8, Canada
Tel.: (604) 338-0213/0214

LANDSMAN is operated by Michael Linton, originator of LETS. This is the definitive source for information about LETS theory and operation. Michael is available to work with groups who wish to set-up a LETS system. He has developed a simulation game called "LETSPlay," as well as software needed for computerized operation of a LETsystem. New improved accounting software, called "NLETS," has recently been developed by Michael Linton and Richard Knights.

Greg Meadows
K-W LETSystem
Box 26008
Kitchener, ON N2G 4V8 Canada

Greg Meadows who runs the Kitchener-Waterloo LETSystem is perhaps the most active current LETS networker in North America. He is a valuable source of information for anyone wishing to start a LETS system. He has developed a simulation game and edits the K-W LETSystem newsletter. K-W offers "Founding Framework" documents and information package. User's and Administration manuals are available on 5 1/4 inch diskette for $20 (Canadian). K-W LETS also has a bibliography of magazine and newspaper clippings, popular and academic essays on LETS, and overseas LETS information.

Tim Inkpen
545 Sherbourne St., Apt. 1107
Toronto, ON M4X 1W5 Canada

Tim Inkpen is the communications coordinator and outreach person for LETS in Toronto. He is a valuable source of LETS information.

David Badke
Box 89
Silverton, BC V0G 2B0 Canada

Provides accounting software called LETSBase.

American Institute for Economic Research
Great Barrington, MA 01230

Provides an un-orthodox perspective on topics such as money and the economy.

International Reciprocal Trade Association
9513 Beach Mill Road
Great Falls, VA 22066
Tel.:(703) 759-1473

Trade association for the commercial barter industry.

Missouri Community Economic Development
628 Clark Hall, University of Missouri
Columbia, MO 65211.

Provides information and assistance on community economic development strategies.

Oregon Marketplace
1004 W. 23rd Ave., Suite 300
Portland, OR 97210.

Assists communities with "buy local" programs and import substitution.

Industrial Cooperative Association (ICA)
Community Economic Development Program
58 Day St., Suite 203
Somerville, MA 02144.

Provides information and assistance in forming cooperatives and community economic development.

Some Known LETS systems in the United States and Canada

Eugene LETS Network
Eugene, OR
(no address available)
(503) 688-6595

Eaglestar LETSystem
19655 Campbell Road
Black Forest, CO 80909

L.A. LETSystem
c/o CRSP
3551 White House Place
Los Angeles, CA 90004

LETS in Toronto
44 St. George St. #303
Toronto, ON M5S 2E4
Canada

Guelph LETS
9 Macdonnell St.
Guelph, ON N1H 2Z2
Canada

Sudbury Employment and Trading System (SETS)
176 Larch St., Suite 302
Sudbury, ON P3E 1C6
Canada

Sangeen Trading Community
RR 3
Chesley, ON N0G 1L0
Canada

Victoria LETS
Box 5525, Stn. B
Victoria, BC V8R 6S4
Canada

Duncan LETS
c/o 5364 River
Bottom Road, RR #2
Duncan, BC V9L 1N9
Canada

Women's LETSystem
1660 Embelton Cres.
Courtenay, BC V9N
6N8 Canada

K-W LETSystem
Box 1731
Kitchener, ON N2G
4R3 Canada

Contacts -- Australia and New Zealand

John Zube
Libertarian Microfiche Publishing Company
7 Oxley St.
Berrima, NSW 2577 Australia

This is a unique and phenomenal source of material on free money, free banking, alternative exchange, and decentralism. Zube has converted to microfiche form more than 300,000 pages of material, much of which is primary resource material (letters, unpublished papers) which are hard to find or not available elsewhere.

New Zealand GREEN$QUARTERLY
P.O. Box 21140
Christchurch, New Zealand Tel.: (03) 661-992

GREEN$QUARTERLY provides a comprehensive assemblage of information collected from the various LETS systems operating in New Zealand (41 at last count). This source is a "must" for anyone wishing to keep up on LETS system developments and "mutual credit," in general. G$Q provides information about how actual operating systems have dealt with various problems and concerns. It also provides access to resource materials such as new software and a "Management Guide."

OZLETS
P.O. Box 1640
Armidale, NSW 2350
Australia

National publication for LETS organizers in Australia and overseas.

Blue Mountains LETS
P.O. Box 125
Katoomba 2780
Australia
Tel.:(047)82 3309, 82 6685.

Blue Mountains is one of the largest LETS systems in the world with over 1500 members.

Kevin O'Brien
157 Jackson St.
Petone, New Zealand

Offers LETS software called "Gnomes of Zurich."

John Lowe
Wai-iti Farms
RD 1
Hastings, New Zealand

Has developed updated LETS accounting software using D-BASE III.

John Croft
Dept. of State Development
P.O. Box 7234
Cloister's Square, Perth, Western Australia 6850
Australia

Offers LETS Training Manual for AUS$20.

Teranaki Green Dollars
P.O. Box 274
New Plymouth, New Zealand

Offers Green Dollar Management Guide for NZ$25.

Contacts -- United Kingdom

LETSLink UK Network
61 Woodcock Road
Warminster, Wiltshire BA12 9DH
Great Britain

A "network for the LETSystem, which keeps groups and individuals in touch with LETS developments around the country." Offers a variety of resources and documentation, including a newsletter, a LETS "STARTER PACK" (for £5), and a UK contact list (for 4 first class stamps).

Richard Knights
31D High Street
Totnes, Devon TQ9 5PH
Great Britain

Offers a new version of LETS accounting software and user's manual for £30 and £10, respectively.

Steve Watson
Brighton, Sussex
England
(no other address available)
Tel.: 011 44(273) 689 567

Offers Apple Mac LETS accounting software.

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Suplizio, Paul E., *Commercial Barter Exchanges in Society*, an address presented to the Chicago Association of Commerce and Industry, Chicago, September 18, 1985. International Reciprocal Trade Association, 9513 Beach Mill Road, Great Falls, VA 22066, 1985.

The Federal Reserve System: Purposes and Functions. Board of Governors of the Federal Reserve System, Washington, DC 1961.

Thoren, Margaret, *Figuring Out The FED*. Truth in Money, Inc., P.O. Box 30, Chagrin Falls, OH 44022, 1985, 1993.

Thoren, Theodore, and Richard Warner, *The Truth In Money Book*. Revised second edition, Truth in Money, Inc., P.O. Box 30, Chagrin Falls, OH 44022, 1984.

Two Faces of Debt. Federal Reserve Bank of Chicago, 1992.

The Commercial Barter Industry. IRTA Fact Sheet, International Reciprocal Trade Association, 9513 Beach Mill Road, Great Falls, VA 22066.

The International Reciprocal Trade Association. IRTA Fact Sheet, International Reciprocal Trade Association, 9513 Beach Mill Road, Great Falls, VA 22066.

Footnotes

1. Title of the Introduction in Jacques Rueff's, *The Age of Inflation*. Tr. A. H. Meeus and F. G. Clarke, Chicago: Henry Regnery Co., 1964.

2. This is best exemplified in the Gaia Hypothesis popularized by scientist James Lovelock and others. See, for example, *The Ages of Gaia*, *Gaia: A New Look at Life on Earth*, and *Healing Gaia*.

3. Hebrews 11:1.

4. In the sense of "less substantial or material". Exchange media, representing individual choices and decisions, take the form, not of gold or silver, or even paper, but of ledger entries and electronic pulses moving with the speed of light from place to place. Such "electronic fund transfers" routinely take place in today's banking system, but the people's own credit is sold back to them for interest as if it were gold or silver.

5. Bilgram, Hugo, and L. E. Levy, *The Cause of Business Depressions*. Philadelphia: J. B. Lippincott Company, 1914, p. 95.

6. *ibid.*

7. The LETSystem will be described in detail in Chapter 10.

8. E. C. Riegel, *Flight From Inflation: The Monetary Alternative*, The Heather Foundation, Box 4, Waterford, VA 22190, 1978. pp. 15-16. Any serious student of money and exchange should read this entire volume, but especially Chapter 2, which explains the essential nature of money.

9. E.C. Riegel, *Private Enterprise Money: A Non-Political Money System*. New York: Harbinger House, 1944.

10. This point will be discussed further in Chapter 4.

11. 1 Timothy 6:10.

12. *Modern Money Mechanics*, Federal Reserve Bank of Chicago, 1992, p.3.

13. For an excellent and authoritative, down-to-earth description of how the Federal Reserve System works, see *Figuring Out The FED*, by Margaret Thoren, 1985, 1993; available from Truth in Money, Inc., P.O. Box 30, Chagrin Falls, OH 44022.

14. *Two Faces of Debt*, Federal Reserve Bank of Chicago, 1992, pp. 17-19.

15. *The Federal Reserve System: Purposes and Functions*, Board of Governors of the Federal Reserve System, Washington, DC 1961, p. 7.

16. A more complete but simple and straight-forward explanation of the money creation process is contained in *The Truth In Money Book*, by Theodore Thoren and Richard Warner; available from Truth in Money, Inc., P.O. Box 30, Chagrin Falls, OH 44022.

17. *Modern Money Mechanics*, Federal Reserve Bank of Chicago, 1992, p.3.

18. *Green Revolution*, Vol. 34, No. 10, December 1977. See Appendix A for a more complete statement of Borsodi's views of banking as a profession and his proposals for the reform of banking practice.

19. For an explanation of the difference between usury and interest, see my earlier book, *Money and Debt: A Solution to the Global Crisis*, second edition, Thomas H. Greco, Publisher, P.O. Box 42663, Tucson, AZ 85733. 1990.

20. Kennedy, Margrit, *Interest and Inflation Free Money*, Permakultur Institut e.V., Ginsterweg 5, D-3074 Steyerberg, West Germany, 1988. Fig. 3 facing p. 14.

21. *ibid*. Fig. 4 facing p.15.

22. Narayan, R.K., *The Financial Expert*. Chicago: University of Chicago Press, 1981.

23. "Does Community Have a Value?", in *Home Economics: Fourteen Essays*. New York: Farrar, Straus and Giroux, 1987.

24. It was at this point that the separation should have been made between the unit of account and the form of payment. The dollar, for example, as a unit of account, could have continued to be defined as the value of so much fine gold, while government and/or bank notes or credits might have been stipulated as the means of settling accounts. But the value of these notes and credits in terms of gold would have to be determined by the market, not by statute.

25. Frederick Soddy, *The Role of Money*, 1935. It is significant to note the context of this quotation, as well:
    "The 'money power' which has been able to overshadow ostensibly responsible government, is not the power of the merely ultra-rich, but is nothing more nor less than a new technique designed to create and destroy money by adding and withdrawing figures in bank ledgers, without the slightest concern for the interests of the community (emphasis added) or the real role that money ought to perform therein..."
    For more of Soddy's analysis of money and finance, see also, *Wealth, Virtual Wealth and Debt*. third edition, Hawthorne, CA: Omni Publications, 1961. Reprinted from the second edition, 1933.

26. Perhaps the U. S. should consider basing congressional representation, only partly upon geography and more upon voluntary association. A person could choose the organization through which he/she would cast his/her vote. Each such association, which would have to be some minimum size, would be entitled to elect a representative.

27. Manfred Max-Neef, "Reflections on a Paradigm Shift in Economics", in *The New Economic Agenda*. Mary Inglis and Sandra Kramer (Eds.), Findhorn Press, The Park, Forres IV36 OTZ, Scotland, 1985, p. 147, 148. Other works which deal more thoroughly with the theme of human scale are: *The Breakdown of Nations* by Leopold Kohr, E.P. Dutton, New York, 1957, 1978; and *Human Scale* by Kirkpatrick Sale, Coward, McCann & Geoghegan, New York, 1980.

28. Dunkman, William, Money, *Credit and Banking*. New York: Random House, 1970, pp. 284,285.

29. *ibid*, pp. 360-363.

30. Cole, G.D.H., and W. Mellor, *The Meaning of Industrial Freedom*. London: Geo. Allen and Unwin, Ltd., 1918, p.4. Quoted by Erich Fromm in *The Sane Society*, p. 249.

31. Max-Neef, *op.cit*., pp. 147-148.

32. There is much more that might be said about this approach, but it is being adequately addressed by others. Good sources of information are:
    1. Missouri Community Economic Development, 628 Clark Hall, University of Missouri, Columbia, MO 65211.
    2. Oregon Marketplace, 1004 W. 23rd Ave., Suite 300, Portland, OR 97210.
    3. Industrial Cooperative Association (ICA), Community Economic Development Program, 58 Day St., Suite 203, Somerville, MA 02144.

33. Mitchell, Ralph A. and Neil Shafer, *Standard Catalog of Depression Scrip of the United States: the 1930s Including Canada and Mexico*. First edition, Iola, Wisconsin: Kraus Publications, 1984.

34. *ibid.*

35. *ibid*, p. 13.

36. *ibid*, p.70

37. This account was taken from *New Zealand GREEN$QUARTERLY*, issue 6, November 1991, which cites the original source as, *The Fig Tree*, "a Douglas Social Credit Quarterly Review", June 1937.

38. Gesell, Silvio, *The Natural Economic Order*. San Antonio, TX: The Free Economy Publishing Co., 1934 (Translated from the sixth German edition). Originally published in 1913.

39. Fisher, Irving, *Stamp Scrip*. New York: Adelphi Company, 1933.

40. This historical information was derived primarily from two sources: (1) Richard Gregg,

The Big Idol, Navajivan Press, Ahmedabad-14, India, 1963, and (2) Irving Fisher's *Stamp Scrip*, cited above.

41. The idea of the stamp stemmed from Gesell's notion that the value of money should depreciate with time, just as does the value of the items which it is supposed to represent. This "gimmick" will indeed speed the velocity of circulation of the currency. However, if a currency or scrip is properly issued and its supply is not artificially restricted, there should be no incentive for hoarding. The "demurrage" which the stamp represents, then, would be unnecessary. This point will be further elaborated in subsequent sections.

42. This is another way of bringing scrip into circulation, but the use of official currency is not really necessary, as we shall explain later.

43. Gregg, *op.cit*.

44. Fisher, *op.cit*.

45. *ibid*.

46. This paper, first published in 1933, proposed a new issue of railway money to help alleviate the effects of the Depression. This information was obtained from an English version published in *Peace Plans #9* compiled by Libertarian Microfiche Publishing Company, Berrima, NSW, Australia. See the section, Sources and Resources, for the complete address.

47. Dr. Borsodi was the author of several books. One of his first, *This Ugly Civilization*, published in 1928, was widely read and anticipated the work of many of our contemporary social critics. Seeing the many social dysfunctions and unhealthy habits of the modern American lifestyle, Borsodi took his family to the country where they established a modern rural homestead. Much of this experience is documented in another of his books, *Flight From The City*. Borsodi founded The School of Living in 1934 to promote the further exploration of healthy living and healthy communities. Over the years, the School of Living has evolved into a nationwide educational network of people who are oriented toward personal responsibility, cooperative self-reliance, and ecological and social improvement. This author is a past President and Trustee of the School, as well as co-editor of its journal, *Green Revolution*.

48. For a more detailed summary of the features of the Constant see Appendix C of *Money and Debt: A Solution to the Global Crisis*. For a complete description of the Constant experiment see Ralph Borsodi's, *Inflation and the Coming Keynesian Catastrophe: The Story of the Exeter Experiment With Constants*. Published jointly by The E. F. Schumacher Society, RD 3, Box 76, Great Barrington, MA 01230 and the School of Living, RD 1, Box 185A, Cochranville, PA 19330, 1989. The manuscript for this book was written in the early 1970's.

49. Bilgram and Levy, *op.cit*., p. 416.

50. Rueff, Jacques, *The Age of Inflation*, *op.cit.*, p. xii.

51. *The Charlotte Observer*, Thursday, Nov. 28, 1985, Sec. A, p. 50.

52. Borsodi, *Inflation and the Coming Keynesian Catastrophe*, *op.cit*., pp. 6-7.

53. *American Heritage Dictionary*. New York: American Heritage Publishing Co., 1973.

54. In some countries the government issues money directly (through the central bank which it controls) by spending it into circulation. In the United States, the federal government does not issue money directly. It is the Federal Reserve, a private banking cartel, which issues U.S. money, as bank credit or in the form of Federal Reserve notes. The Federal Reserve is not under the control of the government. Indeed, it can be reasonably argued that it is the other way around. But the evidence shows that the Federal Reserve will do whatever is necessary to accommodate any level of government spending, no matter how profligate.

55. This subject of the proper basis of issue is addressed more completely in Appendix B, which contains excerpts from "The Lost Art of Commercial Banking" by E. C. Harwood, taken from *How Safe Is Your Bank*, published by the American Institute for Economic Research, Great Barrington, MA 01230, 1989.

56. *American Heritage Dictionary*, *op.cit*.

57. Another means of keeping the prices of basic commodities low is by use of military intervention or threat of intervention to keep weaker countries from restricting or closing-off access to raw materials and export products. Thus, the Gulf War of 1991, the CIA engineered coup in Chile, and innumerable interventions around the world by the U.S. government made it possible for the U.S. to "export its inflation" to a large extent. The so-called free trade agreements like NAFTA, and the GATT, are diplomatic attempts to do the same thing.

58. "Bonds That Brought a Boom" by Jose' Reissig, in *New Economics*, #20, Winter 1991, London, England.

59. *ibid.*

60. I have information from Mr. Reissig that on January 1, 1992, "four zeros were dropped from the national currency, which was renamed the peso instead of austral." From personal correspondence dated March 10, 1992.

61. Personal correspondence dated April 20, 1992.

62. *ibid*.

63. *ibid*.

64. *Ithaca Money*, No. 14, December 1993-January, 1994.

65. IRTA Fact Sheet, *The Commercial Barter Industry*.

66. IRTA Fact Sheet, *The International Reciprocal Trade Association.*

67. *The Commercial Barter Industry, op.cit*.

68. Suplizio, Paul E., *Commercial Barter Exchanges in Society*, an address presented to the Chicago Association of Commerce and Industry, Chicago, September 18, 1985, IRTA, 1985.

69. See also, the description of LETS which appeared in an illustrated article entitled, "The Local Employment and Trading System", by Michael Linton and Thomas Greco, in *Whole Earth Review*, No. 55, Summer 1987.

70. This may be a shortcoming of LETS groups. The help of a "broker" to stimulate trading might enhance the usefulness of LETS for many members. Brokers might take a commission in LETS credits.

71. The members of a few LETS systems are presently considering supplementing their ledger systems with paper "receipts", which would function like paper currency, providing all the convenience and advantages of a circulating currency.

72. Detailed information about how to start and operate a LETS system can be obtained from sources indicated in the section headed, Sources and Resources. This section also contains a list of selected operating LETSystems and software sources.

73. Ruth Hobson, "The Amazing Growth of LETS in the UK", in *LETSlink Newsletter*, May 1993.

74. *ibid*, and conversations with Michael Linton in September of 1993.

75. *K-W LETSLetter*, #16, September 1993, p.2.

76. *ibid*.

77. See *The Washington Post*, Monday, May 20, 1991, Section A, page 1. This article describes *Deli Dollars* and *Berkshire Farm Preserve Notes*. See also, *The Berkshire Record*, April 26, 1991, Section B, page 1, which describes all four scrip issues.

78. *Ithaca Money*, No. 13, October-November, 1993.

79. *ibid*.

80. "A Public Service Economy: An Interview with Edgar S. Cahn", *Multinational Monitor*, April 1989, pp. 17-21.

81. *Directory of Volunteer Service Credit Programs*, University of Maryland, Center on Aging, College Park, MD, April 1993.

82. Cahn, Edgar S., "Time Dollars", *Co-op America Quarterly*, Spring 1993.

83. *ibid*.

84. Cahn, *Multinational Monitor*, *op.cit*.

85. Bilgram and Levy, *op.cit*., p. 383.

86. The use of the term "credit" may cause some confusion since it has more than one meaning. It can be said that goods are delivered on "credit". In this case the seller is giving the buyer "economic credit", i.e. trusting the buyer to pay equivalent value later. In an mutual exchange system, it is the seller's account which receives "accounting credit" on the books of the exchange, indicating that the seller has so much value "coming to him." Thus, the buyer receives economic credit (in the form of goods or services), while the seller receives the corresponding accounting credit which represents his claim to value within the system.

87. For a thorough and relatively rigorous exposition of the fallacy of the volume theory of the value of money, see Bilgram and Levy, *op cit*., pp. 136-155.

88. Greco, *op.cit*., Section III.

89. Hayek, Friedrich von, *Choice in Currency: A Way to Stop Inflation*. London: Institute of Economic Affairs, 1976.

90. Riegel, *Private Enterprise Money, op.cit*.

91. The cost of the stamp used in stamp scrip is a form of demurrage.

92. For a more complete elaboration on this point, see Greco, *op.cit*., pp 54-59.

93. For a more complete explanation of this banking error, see Appendix B, which contains excerpts from "The Lost Art of Commercial Banking" by E. C. Harwood, in *How Safe Is Your Bank*, published by the American Institute for Economic Research, Great Barrington, MA 01230, 1989.

94. Edited and adapted from Silvio Gesell, *The Natural Economic Order*.

95. *Local Currencies*, brief, Landsman Community Services, May 8, 1991.

96. An individual may, of course, issue his own currency (his I.O.U.) by his own authority; however, its acceptability will be limited in comparison to a currency which many people are committed, by agreement, to accept.

97. Some might argue that some amount less than full parity should be credited, say 80%. This, however, would place into circulation an amount of money insufficient to purchase the deposited commodity at par, thus tending to force prices down and preventing the producer from obtaining an adequate return or recovering his/her costs.

98. In actual practice, the details of the procedure might be somewhat different but the effect would be as described. The bank, which maintains a continuous inventory record and issues release certificates for withdrawal of wheat from the warehouse, would begin to retire currency from circulation as it came in to pay for the wheat. This is somewhat similar to existing bank practice with regard to financing automobile dealers' inventories of vehicles, except that banks charge substantial interest.

99. Naisbitt, John, *Megatrends*. New York: Warner Books, 1982, p. 183

100. As I understand it, the IRS currently does not recognize the donation of services as a tax-deductible contribution. Only cash and in-kind donations qualify. Some change in the tax regulations might be necessary to gain tax advantages for donation of ERR's.

101. This topic was fully covered in Chapter 9.

102. Although United States currency is presently issued by the Federal Reserve banking cartel, the U.S. government is its ultimate guarantor. U.S. Treasury bills, notes and bonds represent direct obligations of the U.S. Government and are the ultimate in safety, even in these shaky times. Their safety derives from the power of the government to impose taxes on the people. Fall they may, but they will likely be among the last securities to do so. In the meantime, they provide a safe store of value, plus interest income which can be used to bolster "good work" organizations. Since U.S. Government securities provide the basis for much of the money issued by the banks, there is a certain elegance about using the same securities to establish a new transformational exchange medium.

103. Donations of services, on the other hand, are not deductible under current IRS regulations.

104. Ideally, there should be no liquidation of the security fund at all. As the pool of government securities increases, more official money would be replaced with FTRs, transforming the medium of exchange from a debt-based medium to a service-based medium. As a practical matter though, the interest income from the endowment fund would probably be distributed to member organizations to help meet their cash needs.

105. Mark 10:31.

106. *Flight From Inflation*. *op.cit*., p. 49.

107. This limit might eventually be relaxed or eliminated as the system becomes established and stable operation is demonstrated.

108. Such a standard, using an assortment of basic commodities, is proposed and described in Part III of my book, *Money and Debt: A Solution to the Global Crisis*.

109. I disagree with Borsodi's reliance upon licensing statutes and their enforcement by the state as a means of maintaining professional standards. Licensing often leads to

restraint of trade and extortionate fees. It can also be argued that most licenses are a violation of basic human rights guaranteed by the constitution. I favor the elimination of such statutory privileges and prefer to rely upon (1) open access to information, (2) consumer education, and (3) the certification of practitioners by private accrediting agencies. As Borsodi himself proposes below, banks should not be operated as corporate businesses. Without the limited liability protection afforded by the corporate umbrella, banks would tend to be smaller, local in scope, and more responsive to the needs of their clients. If the establishment of banks (or the exchange systems which might succeed them) was less restricted and the depository function was handled by other agencies, the potential for currency abuse would be greatly constrained.

110. This section is based on material contained in an article, "The Lost Art of Commercial Banking" by E. C. Harwood, in *How Safe Is Your Bank*, published by the American Institute for Economic Research, Great Barrington, MA 01230, 1989. All quoted passages in the following text are taken from that article which was originally published in 1974.

Index

[The index has been included verbatim from the original book. Although the page numbers have no meaning and are not included here, it was felt the subjects noted are useful as a reference. --ratitor]