PART III
COMMUNITY EMPOWERMENT
AND MONETARY TRANSFORMATION

Chapter 11
Basic Factors in the Creation of Democratic Exchange Media

"Every piece of money is essentially a credit instrument."
-- Hugo Bilgram and L. E. Levy

Bilgram and Levy remind us that "every piece of money is essentially a credit instrument, an acknowledgement of debt, accepted in the market as a medium of exchange, and that its value depends solely on the value of the credit on which it is based." [85] This may not be true of full valued commodity monies like gold and silver coins, but it is certainly true of the common types of paper and "checkbook" money we have become accustomed to using in this modern era. Likewise, the contemporary local exchange examples described in the previous chapter and the democratic exchange media which we advocate and describe herein are also credit instruments. Keeping that fact in mind, it becomes clear that the first requisite in evaluating any exchange system is to assess "the value of the credit upon which it (the money) is based." Monetary theory speaks of several essential factors which must be appropriately dealt with in order to have a sound monetary system. The most essential of these factors can be highlighted in the following questions:

1. What should be the basis upon which money is issued into circulation?
2. What factors should be used to determine the amount of money to be issued?
3. Who should have the power to issue money?
4. How should the power to issue be allocated among those empowered to issue, and what should be the limits?

As we shall see, the answer to the second question follows naturally from the first, while the answer to the fourth question is implied by the criteria selected in answering the third.

Basis of Issue

The most important factor in the creation of an exchange medium is the **BASIS OF ISSUE**. It is my strong belief that **the creation and issuance into circulation of a unit of currency or credit should be coincident with the transfer of value.** It should also give rise to a "commitment" on the part of the original issuer to redeem the currency, in the market, by providing equivalent value in exchange for the currency, *i.e.* the issuer should be obligated to accept his currency at par or face value from those wishing to buy his/her goods or services. The form of the redemption need not necessarily be limited to a particular commodity, but

may be in the form of any desired goods or services. This is the way a mutual credit system operates. The "credits" which the seller receives are, in effect, money, created by the buyer who is "committed" to redeem credits later by providing goods or services to someone in the system. [86]

Regulation of the Amount of Exchange Media Supplied

It is crucial that the quantity of the exchange medium be **balanced** with the flow of goods and services coming into the market, and that it be **self-adjusting**. Much is made of the "quantity (or volume) theory of the value of money," and it is generally accepted as valid. But as we have already shown, it is not the quantity of money per se which determines its value, so it is not the quantity which needs to be controlled. [87] If money is properly issued, there will never be any problem of under-supply or over-supply. The quantity of money will always be just the right amount to purchase the goods and services which it represents. Capital goods, land, purchases by consumers, and ever-expanding government debt should therefore all be excluded as allowable bases of issue. It is only the politicization of money and the monopolization of its issuance and control which have caused the focus of attention to be shifted away from its true value foundation onto its mere volume. **The proper basis of issue is the transfer of value, as it is being exchanged, from a producer to another (potential) producer.**

In a mutual credit system, credits are created as needed to mediate an exchange, and there is no interest burden on debits. The total amount of credits is always balanced with an equal amount of total debits, so there can never be an artificial shortage or surplus as there is in the official monetary system.

Power to Issue

The third important factor is the **POWER TO ISSUE**. In a truly free society, power of all kinds, including economic power, should be widely dispersed. Thus, the association of issuers should be open to anyone willing and able to abide by its agreements and rules, which should be minimal, and there should be no restriction on the formation of competing associations. Just as we have competing credit card companies, the issuance of exchange media should be open to competing associations of issuing groups. This will tend to insure that proper procedures are followed, and contribute to the innovative development of the exchange process.

So, **everyone should be empowered to issue exchange media based upon their ability and willingness to contribute valuable goods and services to the community.** This means that an issuer should, in the normal course of business, be able to liquidate his/her issue within a reasonable period of time. The guiding principle which seems most appropriate, based on past monetary experience, is that a participant is qualified to put into circulation an amount of "money" up to the amount of his/her sales over a 2 or 3 month period.

Some Theoretical Considerations for Contemporary Systems

As we have seen, the soundness of currency in circulation derives from the basis upon which it is issued, and the ultimate "backing" for it is the commitment of the issuers to redeem it by

the sale of goods and services.

Authority

There has been considerable debate about whether or not an issuing authority is needed for a local currency or mutual exchange system, and, if so, what the power of that authority should be. As we have pointed out, the basis of any exchange system is the agreement, either formal or tacit, among the participants. **It is the agreement that constitutes the authority under which the system operates; not the administrator or board of directors,** which, if they exist at all, are empowered only to make certain specified decisions or take limited actions, **as stated in the agreement.**

Those agreements, of whatever type, which seem to be most workable, are those which define clearly and precisely the rights and responsibilities of each of the parties to the agreement. In the case of a mutual credit system, someone has to sign-up new participants, keep the membership list, record transactions, and keep track of account balances. These functions must all be included in the agreement. Each participant is given the right to issue credits, and each participant has the obligation of redeeming the credits which s/he issues.

It is important that the participant feel this commitment strongly. This works more easily in a system in which there is formal "membership" and a **written** agreement. This agreement might require members to "settle" their accounts if and when they terminate their membership. Thus, in a mutual credit system, a member with a debit balance would be obligated to earn enough credits to bring his/her balance to zero, or, perhaps, pay an equivalent amount in cash. Similarly, if currency notes are used, a member to whom notes have been transferred would agree to return a like amount of notes, or cash.

A periodic renewal of membership provides an opportunity for each member to confirm his/her commitment. If a person fails to renew his/her membership, then the management could "call" his/her commitment. The obvious question though is, how shall the agreement be enforced? I believe that a community-based exchange system, in contrast to the dominant system with which we are all familiar, should not depend upon legal enforcement of contracts. As with any voluntary association, there should be no penalties for failure to honor one’s commitment, except for that of expulsion from the association. In a limited, local, more personal system, we can probably do without a formal enforcement mechanism of coercion and penalties, trusting instead the good faith of the members, and the subtle social pressures which regulate behavior in any community.

Though neither the nominal LETS system nor *Ithaca HOURS* strictly follow all the theoretical direction suggested above, they seem to be working well. This is probably due to the intensive educational efforts mounted by their proponents and the strong community spirit in the areas where they have prospered. In the case of *Ithaca HOURS*, it is probably also due to the rapid growth in the number of participants and close control over the amount of *HOURS* placed in circulation. With only about 5 to 6 *HOURS* per participant issued, there should be little risk of *HOURS* being discounted in the market.

As the system grows, however, the need for more formal protocols will likely become apparent.

The Unit of Account

Since the Ithaca notes are denominated in "HOURS" rather than dollars, they seem to have acquired a market value which is somewhat independent of that of the ever-declining value of Federal Reserve currency. Even though the "HOUR," as a distinctive unit of account, is not precisely defined, it is still possible for people to make a mental distinction between "hours" and "dollars." It appears that people have largely accepted Glover's assessment of the *HOUR* as being worth about $10. This amount might be considered to be some kind of local average wage. If the further debasement of the dollar should cause wages to rise significantly, say to $14 on the average, the *HOUR* notes might then pass for goods or services worth $14 instead of $10, provided, of course, that *HOUR* notes have been properly issued and not themselves debased.

In a LETS system, the unit of account is the "green dollar," or whatever the local group wishes to call it (*e.g. cowries, credits, oaks* etc.). People naturally equate the value of a "green dollar" to that of an official dollar since, unlike the Ithaca situation, they have no other referent. Green dollars would undoubtedly depreciate along with the official dollar as inflation proceeds. This is one more reason to circulate them rapidly and avoid holding them as a savings medium.

Eventually, local currency and exchange systems will need to define a different unit of account. I would prefer something more precise than labor time, like the unit of account based on a composite commodity standard, as I proposed in my book, *Money and Debt: A Solution to the Global Crisis* . [88] Such a standard, based on a "market basket" of commodities, would tend to be both stable and apolitical.

Alternatively, some single commodity which has special importance for the local economy could be used as a standard of value for a local currency. This could be a cord of wood, a bushel of corn, a bale of cotton, or some other commodity which is widely traded in local commerce. However, a unit of account based on a single commodity has certain drawbacks. Its value is more influenced by transitory conditions like weather, and the market for a single commodity can be more easily manipulated by governments and large volume traders.

What About Backing and Redeemability?

Many present day monetary reformers lament the passing of the redemption feature of paper currency and bank credit. They yearn for a return to the "gold standard," by which they mean, not only the definition of the dollar in terms of a particular weight of gold, but also the redeemability of paper currency into gold. In the past, paper money was redeemable, at the option of the holder, for silver or gold coins. This option of exchanging one kind of money for another did indeed play a major role in keeping political paper money honest by limiting the amount of paper which could be issued. The reinstitution of redeemability would certainly be one way of restoring discipline upon the issuing authorities, but it would have negative side-effects and is far from the ideal approach.

The desire for redeemability in a currency is an anachronistic bit of psychology left over from the days when money had substance. Paper bills and bank credit began as "claim checks" against specie, or real money, *i.e.* gold and silver. Thus, there were actually two

kinds of money, paper and specie (gold or silver). The "real" money was, of course, the metal, and the paper was only a symbolic representation of it.

Under such a system redeemability was absolutely necessary to prevent the banks and/or other issuing authorities from issuing too much paper. With expanding economic activity, however, there was a chronic shortage of metallic money. This led to the expedient of what is known as "fractional reserve banking," in which banks were allowed to issue paper money in amounts that were several times the value of their gold holdings. The paper was still redeemable for gold but there was not enough gold to redeem all the paper. The potential problem with such a system is obvious, and indeed, bank runs and panics were recurrent and common. The issuance of paper was often unsound (and, therefore, excessive), and whenever the public got a sense of this they exercised their option to redeem paper for gold, depleting bank reserves.

Unfortunately, rather than ending the abuses and developing a sound system, the monetary authorities addressed the problem of bank runs by centralizing control of the banking system and putting an end to redeemability. Thus they eliminated the only effective means of imposing discipline upon the issuers and opened the way for abuse on a grand scale. Discipline is certainly necessary in a monetary system, especially when the issuer has a monopoly and competing currencies may be excluded from the marketplace. In a free environment, however, there are better ways to impose discipline. The ultimate test of a currency is its acceptability in the marketplace and its "redeemability" for goods and services there. When traders have the freedom to refuse to accept a currency, or to accept it at a discount from its face value, then they can protect themselves from the effects of improper and excessive issuance of a currency. In the words of Friedrich von Hayek:

> "There could be no more effective check against the abuse of money by government [*or any other issuer*] than if people were free to refuse any money they distrusted and to prefer money in which they had confidence." [89]

In any event, computers and communications technologies have long since obviated the need for "claim check" kinds of money. Rather than revert to this anachronistic form of discipline, it is now necessary to move away from monopolized, political, and coercive monetary systems toward free, non-governmental, democratic exchange media.

What then will provide the "backing" for a democratic, privately issued, credit type of money which we are considering? This question was answered very well by E. C. Riegel:

> "'Reserves' and metal hoards are but window dressing. Only that which is purchasable is back of money. (p.109).
>
> "...like any money unit, until something has been exchanged for it, nothing is back of it. When it has been exchanged for something, that something is back of it. Money's material backing is that which the seller surrenders in exchange for it; its moral backing is the buyer's promise to back it with an equivalent value when in turn he becomes the seller." [90]

Implementation

Whether it involves a mutual credit system, a circulating paper currency, or both, any alternative exchange system, in order to be easily implemented and readily accepted, should,

as much as possible, use familiar devices and procedures. People are accustomed to using paper notes (bills), checks, bank accounts, debit cards and credit cards, and these inventions have demonstrated their effectiveness in handling the processes of trade. These are the mechanical aspects of money and banking and there is no reason why the new, democratic, local exchange systems should not use similar devices.

It might be wise, however, for local exchange systems to use different terminology and completely avoid the use of words like "money," and "dollar" to preclude confusion with, and any suggestion of competition with existing monetary and financial structures. Local exchange media are complementary to official media and might be referred to as "coupons," "credits," or "scrip." They will develop in parallel with official monetary systems, and, over time, assume a larger and larger portion of the burden of mediating exchange. As people gain experience with them, they will come to understand the simple essence of exchange media, and sense the economic empowerment which community control provides.

Chapter 12
Community Empowerment Through Mutual Credit Systems

> "There was probably no other person in the whole country who had meditated so much on the question of interest. Maragaya's mind was full of it. Night and day he sat and brooded over it. The more he thought of it the more it seemed to him the greatest wonder of creation. It combined in it the mystery of birth and multiplication. Otherwise how could you account for the fact that a hundred rupees in a savings bank became one hundred and twenty in course of time? It was something like the ripening corn. Every rupee, Maragaya felt, contained in it the seed of another rupee, and that seed in it another seed and so on and on to infinity. It was something like the firmament, endless stars and within each star an endless firmament and within each an further endless... It bordered on mystic perception. It gave him the feeling of being part of an infinite existence."
>
> R. K. Narayan, *The Financial Expert*.

An exchange system may utilize any of a number of instruments and protocols. It may utilize physical objects which circulate from hand-to-hand, such as paper notes, coins or tokens; it may be comprised of accounts and ledgers using debits and credits; or it may involve some combination of these. Whatever form the exchange media may take, whether paper notes or account balances, the same basic principles apply. In general, from this point on, when we speak of "currency," it should be understood that the term also includes credits in a ledger (bookkeeping) system.

What is Mutual Credit (MC)?

Anyone familiar with the LETS system already has a basic understanding of what mutual credit (MC) looks like. Mutual credit is the generic term which includes ledger systems like LETS but isn't limited to the particular procedures and protocols which LETS uses. It might, like LETS, use a ledger or system of accounts for recording the initial obligations of its members, while also providing its members with circulating notes. These notes would be issued to members against their credit lines, in effect, providing a physical representation of that credit. Just as a cash withdrawal is debited against (subtracted from) a bank account, the amount of any notes thus issued would be debited against the member's Mutual Credit account.

A mutual credit (MC) system is designed to surmount the limitations of barter. Like money, it provides an intermediary device which allows two parties to trade even though one of them may have nothing the other wants. For example, suppose Martha knits sweaters, and John wants to buy one but has nothing that Martha presently needs. Using mutual credit (MC), he can still get the sweater, giving Martha "credits" for the agreed price. Where does John get the credits to give to Martha? He creates them. Just as banks create dollars to give to someone who requests a loan, John creates the credits to pay Martha for the sweater. Martha can then spend her credits when she buys something from anyone else in the system. When John creates credits to pay Martha, he obligates himself to accept credits from someone in the system at some future time in payment for his own goods or services. In this way, by making a sale, he "redeems" the credits which he originally issued. This is shown pictorially in Figure 12.1. It can be seen that the process is essentially identical to that of the ideal money circuit which we described in Chapter 2, and the LETS trading circuit described in Chapter 10.

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

How a Mutual Credit System Works

Mutual Credit can be viewed as an extension of the long-established practice of trade credit which businesses offer to one another in the normal course of business. They simply sell to their customers on what is called "open account," which means that they deliver the merchandise and bill their customer for the amount due. A certain amount of time is allowed for payment to be made. It may be 15, 30, or 60 days, or more, depending on the customs of that particular line of business. Often, a discount may be given for prompt payment. In the terminology of business, an example of typical trade terms might be "2%/10; net 30 days," which means that payment is due within 30 days of the billing date, but a 2% discount may be taken if payment is made within 10 days.

The basic idea of a Mutual Credit system is to extend the practice of trade credit to a wider group of participants, each of whom has the power to buy without cash, and, at the same

time, to lengthen the duration within which balances may be outstanding. The ideal, at least with respect to empowerment of the participants and local control of the local economy, is to eliminate completely the requirement of payment in official currency.

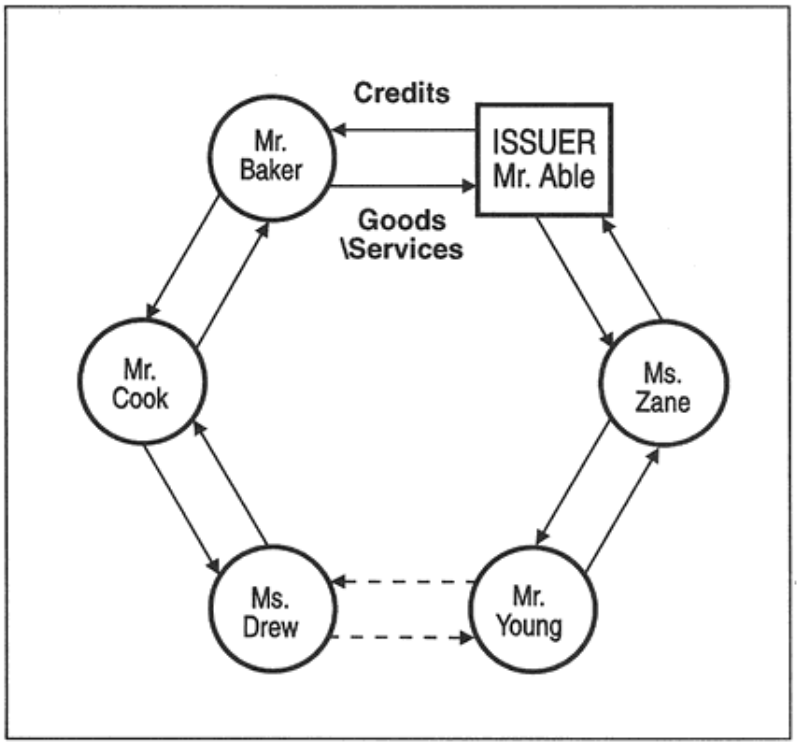

Figure 12.1: The Mutual Credit Trading Cycle

Over the long-run individual account balances will move up and down, some months ending with a credit balance and some months ending with a debit balance, but averaging out around a balance of zero. As long as debit balances do not become chronic or extreme, the system can handle these situations readily; indeed, since the total of credits must be balanced by an equal amount of total debits, outstanding debit balances are a necessary feature of the system and will have no adverse effect upon its operation. If a particular participant develops a chronic debit balance, steps can be taken by the group to help him/her to increase sales and/or reduce purchases. This issue will be considered in more detail later on.

Basic Steps in Organizing a Mutual Credit System

The following are the essential steps in starting a Mutual Credit trading system:

1. Organize a core group of people to begin trading among themselves using trade credit units as the exchange medium. It is best if the founding group is composed of people who know one another or who have been working together for some time. The group can be expanded, as appropriate, by inviting other friends and acquaintances to join. New members might be provisional for some specified period of time, after which they would have the same status as founding members. Provisional members might have a debit limit which is lower than the limit for full members.

2. Choose some unique name for the system credits to distinguish them from official currency. They might be called "sand dollars," "green dollars," "LETS credits," "creds," etc. To help avoid confusion, it might be best to avoid using the word "dollar" in naming the local unit.

3. Establish some means for members to make known to one another their needs and offerings. This can be easily done by distributing a newsletter containing classified ads listing both offers of and requests for items and services.

4. Limit the debit balances on member accounts. Initially, every full member account should have the same maximum debit balance. The amount is a matter for debate but an equivalent of about $200 or $300 might be reasonable to start with. As trading develops, debit limits might be raised for those who demonstrate the capacity to carry a higher amount by selling more within the system.

5. Designate someone to be "registrar" for the system to maintain the membership list and record members' transactions. Members will report their transactions using a standard form. The registrar will periodically update members' account balances and issue account statements.

6. Produce and distribute periodically to all members a summary report showing each member's balance and trading volume for the previous period. This will help to establish a completely open information system and allow every member to know the health of the system and be aware of any developing problems.

7. Designate someone to produce a newsletter and/or an updated list of requests and offerings. This could be part of the registrar's duties, or it could be done by someone else.

8. Charge a certain amount for each service provided by the system. There should be fixed charges for recording transactions, advertising offers and requests, generating and mailing account statements and reports, and, perhaps, providing a membership directory. Some of these fees will be in system credits, but some will need to be charged in cash to cover cash expenses for postage, copy expenses, or supplies which may not available within the system. These revenues to the system might also be supplemented by charging an annual membership fee.

9. Charge a small percentage, in system credits, at the end of each period on all balances, both credit and debit. The percentage charged should be the same for both types of balance. This will have several positive effects. It is intended mainly to stimulate the circulation of credits and avoid stagnation of balances. In addition, it will provide a supplementary source of system credits with which to pay for system operation and development. This will assure more adequate compensation for the registrar, newsletter editor, and others who provide services to the system. Any surpluses which develop might be used to fund community projects or for other purposes which the members shall determine by consensus.

10. Schedule regular gatherings of the membership. These are not just to take care of

system business, but to get to know one another, to trade, and to have some fun. Try pot-luck suppers, picnics, auctions, and rummage sales.

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

Continuing Issues in Mutual Credit Systems

The above steps and suggestions are based on limited experience and are by no means the final word on the matter. Each group will have to work out for itself many of the answers to the recurrent problems of exchange. The questions and issues that need to be addressed in establishing and operating a mutual credit system are essentially the same as those which exist in any system of money and banking, and if not properly handled can lead to disastrous consequences. Various groups have dealt with them in different ways, but some approaches are superior to others. These issues are summarized as follows:

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

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

Savings and Investment Provisions.
Should account balances serve as savings and investment media? If not, how can such use be limited. What mechanisms should be provided for savings and investment, if any?

Interest/Demurrage on Account Balances.
Should interest and/or demurrage charges be levied on debit and/or credit balances?

Co-responsibility groups.
Should members be allowed to participate as individuals or should everyone be a part of an affinity group in which the group members take some responsibility for each others' balances?

Group/organizational/family memberships.
Should the system provide fee discounts to people who join as part of an organization, group, or family, and if so, how much? How is "family" defined? What limitations

should be placed on family or group memberships, if any?

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

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

Preventing Stagnation in Mutual Credit Systems

One problem which may arise in any system of exchange, and which is worthy of special attention, is stagnation of circulation. In a mutual credit system, stagnation takes the form of idle balances, either debit or credit. Those

holding debit balances have bought more than they've sold. If such an account is idle, that member, in effect, is not honoring her/his commitment to the members of the system in a timely manner. Having received value, s/he is "committed" to deliver like value. Although there may be no specified time limit for honoring such a commitment, there is the expectation that efforts will be made to move the account balance back toward zero. Some activity in earning credits shows "good faith" and indicates that a member is willing and able to provide something the community needs or wants. If a member does develop a chronic debit balance, however, it needs to be handled in some way.

In keeping with the basic principles of a local, limited, personal and convivial system, chronic debit balances should not be dealt with in a punitive fashion. A mutual credit system is designed to be friendly and helpful rather than dominating and manipulative. A chronic debit balance may be indicative that a member is having some kind of personal trouble, in which case fellow members would probably want to help in some way. Perhaps that member needs to improve the quality of the products or services s/he provides, or perhaps s/he needs to acquire some new skill to provide something the community needs. In a personal, local system, these matters can be handled in a helpful way, by those closest to the problem, rather than impersonally and coercively by distant and unresponsive bureaucracies.

Those holding credit balances in a mutual credit system, have sold more than they've bought. If an account with a credit balance is idle, that member, in effect, is not demanding from the system value which is due him/her. Having delivered value, s/he is entitled to receive like value. Although there may be no specified time limit within which credits must be spent, the expectation is that credits will be spent, not saved. Saving credits has the effect of preventing, to some extent, those with debit balances from selling enough to get back to zero.

The primary problem to be overcome in facilitating trade is the "barter limitation," *i.e.* the fact that the buyer may not have anything the seller wants. By creating an intermediary "medium of exchange," *e.g.* trade credits, there is a "space" created within which the seller may supply the buyer's need anyway, and then proceed to find a supplier for his/her own need. This "space" is only partially temporal; mostly it is interpersonal, a matter of matching up specific needs or wants with appropriate supplies in the market. In other words, it allows some slack in which people can find one another so that each can have his/her needs satisfied.

Saving and Investment

Another necessary function in finance is the storage of value. When economists speak of money as being also a "store of value," they are speaking metaphorically. Since value is an abstract concept and not a physical quantity, it cannot really be stored. Cabbages can be stored, wheat can be stored, building materials can be stored, metals can be stored, but each, of course, is subject to some degree of spoilage or deterioration over time. The primary problem to be solved by storage is the asynchronicity of supply and demand.

The very idea of storage is based on the desire to match present supplies with future needs. We put aside the extra food from the garden in summer to satisfy our hunger next winter when the garden will not be producing. Similarly, we save during our productive years so that we can have the means of livelihood during our retirement years. But unlike our storage of food from the garden, which we do directly, our saving for retirement we do socially. Saving, in financial terms, must involve other people.

Ultimately, at any point in time, non-producers, such as young children and retirees, are dependent upon then current producers for the satisfaction of their material needs and desires. The mechanisms by which non-producer needs are met are varied and often complex and are based on such factors as cultural values, ethics, social norms, legal statutes and financial agreements. In our retirement years for example, we are mainly dependent upon two basic arrangements: (1) legislated, involuntary redistribution of wealth by governments in the form of such programs as FICA taxes (Social Security) and Welfare and, (2) contractual agreements of a form usually called "investments" which consist of such financial instruments as pensions, insurance, annuities, stocks, bonds, mutual fund shares, bank deposits, etc..

Both legislated programs and investments provide the recipient with a "claim" against current and/or future production. The question as to which claims may or may not be "legitimate" is, of course, always open to debate and disagreement, and the questions of which claims may or may not be honored is always a matter of concern. The satisfaction of any claim is always dependent upon the ability and willingness of those who are asked to bear its burden.

What About Interest?

Given our cultural conditioning and the prevailing practice within the conventional systems of money and finance, there is a tendency to want to impose a levy or charge upon debit balances, these balances being thought of as loans to the "debitor," and the levy representing

an interest charge. Considering what has been said above, it should be clear that such attitudes and practices need to be reconsidered.

In accordance with the rationale put forth by Silvio Gesell, some have argued that, in order to keep an exchange system vital, a periodic levy should be made upon credit (positive) balances. This kind of charge is known as "demurrage." [91] The argument is that demurrage would encourage the spending and discourage the holding, or saving, of currency or credit balances, and insure the lively flow of "money" (credits) through the system. That is not to say that saving is "bad," but that it should be accomplished using some medium other than the exchange medium. [92]

The imposition of levies upon either debit or credit balances, or both, will undoubtedly promote their use as an exchange medium, deter their use as a savings/investment medium, and prevent stagnation. However, such levies may have a negative effect upon another primary objective, that of "reciprocity."

The idea of reciprocity is that the value received by a trader should be equivalent to the value which he/she delivered. The discriminatory imposition of a levy upon only one or the other type of balance upsets this ideal. The case for imposing levies upon balances is a strong one. However, since everyone benefits from the operation of the system, if a levy is imposed upon balances, both debit balances and credit balances should be charged equally.

Current Account vs. Capital Account

Another possible approach to dealing with the problem of idle balances would be to limit both the amount of debit and credit which could be carried over from one period to the next. Any amount in excess of the limit would be "cleared" to a capital account. Anyone who cannot clear his/her debit at the end of the current period, or who wants long-term financing for any purpose, would have to find someone willing to assign his/her credits for a specified period of time. This is a capital market function. Likewise, anyone who desires to "save" his/her credits, must find some suitable investment medium for accomplishing the storage of his/her value. In other words, side-by-side with the exchange system, there would exist a capital market which would provide for capital formation (investment) and savings (storage of value).

As an example, suppose that at the end of the quarter, Betty has a credit balance of 900, but the maximum that may be carried over is 500. She must then find someone who needs the remaining 400 credits and make a private deal with him/her, or she might "deposit" her excess credits in a savings coop which would invest them for her.

Suppose too that Gary wants to acquire enough credits to hire George to help him build a house. They agree on a price of 2,000 credits. But since the debit limit on all current accounts is, say, 500, Gary must "borrow" the remaining 1,500. He could make a deal with Betty, and maybe two or three other members, to use their excess credits for some specified period of time. During that time, of course, Betty would not be able to use those credits herself. Alternatively, Gary could go to the savings cooperative and request a loan of 1,500 credits.

Capital formation is the process of creating the means of production, including the creation of new businesses or the expansion and improvement of existing ones. It includes construction of buildings, improvement of land, production of tools and equipment, and other expenditures which are expected to be recovered over a long period of time through the sale of products or services. The creation of exchange media should be based upon the exchange of current supplies of goods and services. It is a well-established principle of sound banking that long-term assets should not be used as the basis for creating new money, but should be financed out of "savings," *i.e.* money which has already been created but not spent on current consumption.

Having both a "current" account and a "capital" account is a way of separating the "medium of exchange" from the "store of value." It is as easy as transferring deposits from your checking account to your savings account, or writing a check to buy shares of stock or a mutual fund. Indeed, along with empowering people by allowing them to create their own exchange medium, it is still important to follow sound banking practices. Since these practices have been largely forgotten and abandoned by the established monetary and financial institutions, new systems must be built from the ground up. These systems should be based upon the principles of equity (just), conviviality (open to all) and reciprocity (mutual/cooperative), and a clear understanding of the effects of various financial practices.

In either case, whether in a current account or a capital account, a credit balance represents a "claim," and the activity which gives rise to the claim should determine whether it is "current" or "capital." In the current account, a credit is a short-term claim upon the market, which is intended only to facilitate trade. It is a "demand" deposit which the market should be able to satisfy at any time. In the capital account, a credit is a claim against long-lived assets which are not liquid, but will produce benefits over a long period of time. For example, if the claim has resulted from activity which has produced a building or equipment, it will take time for the cost of these to be recovered. This recovery takes place in the normal course of their use in the production and sale of consumable goods.

One of the "sins" of the present banking establishment is that it has blurred this distinction between savings deposits (time deposits) and demand (checking account) deposits, and has issued money on the basis of, not only goods on the way to market, but also goods being taken from the market. [93] Properly, demand deposits represent goods (and services) presently in the market, available for purchase, and savings deposits represent investments in capital goods and durables. Formerly, banks paid no interest on demand deposits because such deposits had to be kept available for payment of checks drawn upon the account. Thus, they could not be invested in longer-term, interest-earning assets. Now, banks are paying interest on demand deposits and giving some savings deposits much the same liquidity as demand deposits.

A STORY OF ROBINSON CRUSOE: An Introduction to the Theory of Interest by Silvio Gesell [94]

Robinson Crusoe, as is well known, built his house, from motives of health, on the south side of the mountain, whereas his crops grew on the damp but fruitful northern slopes. He was

therefore obliged to carry his harvests over the mountain. To eliminate this labor he decided to construct a canal around the mountain. The time required for this enterprise, to avoid silting, would have to be carried out without interruption, he estimated at three years.

He slaughtered some pigs, and cured their flesh with salt; he filled a deep trench with wheat, covering it carefully with earth. He tanned a dozen buckskins for suits and nailed them up in a chest, enclosing also the stink-glands of a skunk as a precaution against moths. In short, he provided amply, and as he thought, wisely, for the coming three years.

As he sat calculating for the last time whether his "capital" was sufficient for the projected undertaking, he was startled by the approach of a stranger, obviously the survivor of a shipwreck.

"Hallo, Crusoe!" shouted the stranger as he approached, "my ship has gone down, but I like your island and intend to settle here. Will you help me with some provisions until I have brought a field into cultivation and harvested my first crops?"

At these words, Crusoe's thoughts flew from his provisions to the possibility of interest and the attractions of life as a gentleman of independent means. He hastened to answer "yes."

"That's splendid!" replied the stranger, "but I must say at once that I shall pay no interest. I would prefer to keep myself alive by hunting and fishing, for my religion forbids me to pay, or to receive, interest."

Robinson Crusoe: An admirable religion! But from what motive do you expect me to advance you provisions from my stores if you pay me no interest?
Stranger: From pure egoism, my dear fellow, from your self-interest rightly understood. Because you gain, and gain enormously.

R.C.: That, stranger, you have yet to prove. I confess that I can see no advantage in lending you my provisions free of interest.
S.: I shall prove it in black and white, and if you can follow my proof, you will agree to loan without interest, and thank me into the bargain. I need, first of all, clothes, for, as you see, I am naked. Have you a supply of clothes?

R.C.: That chest is packed with buckskin suits.
S.: My dear Crusoe! I had more respect for your intelligence. Just fancy nailing up clothes for three years in a chest -- buckskins, the favorite diet of moths! And buckskins must be kept aired and rubbed with grease, otherwise they become hard and brittle.

R.C.: That is true, but I have no choice in the matter. They would be no safer in my clothes cupboard -- less safe, indeed, for it is infested by rats and mice as well as by moths.
S.: The mice will get them in any case. Look how they have already started to gnaw their way in!

R.C.: Confound the brutes! I am helpless against them.
S.: What! A human being helpless against mice! I will show you how to protect yourself against rats and mice and moths, against thieves and brittleness, dust and mildew. Lend me

those clothes for one, two or three years, and I will agree to make you new clothes as soon as you require them. You will receive as many suits as you have lent me, and the new suits will be far superior to those you would have taken from this chest. Nor will you regret the absence of the particular perfume you have employed! Do you agree?

R.C.: Yes, stranger, I agree to lend you the chest of clothes; I see that in this case, the loan, even without interest, is to my advantage.
S.: Now show me your wheat; I need some for bread and seed.

R.C.: It is buried in this mound.
S.: Wheat buried for three years! What about mildew and beetles?

R.C.: I have thought about them and considered every other possibility, but this is the best I can do.
S.: Just bend down a moment. Observe the beetle crawling on the surface of the mound. Note the garbage and the spreading patch of mildew. It is high time to take out and air the wheat.

R.C.: This capital will be my ruin! If I only could find some method of protecting myself against the thousand destructive forces of nature!
S.: Let me tell you, Crusoe, how we manage at home. We build a dry and airy shed and shake out the wheat on a boarded floor. Every three weeks the whole mass is turned over with wooden shovels. We also keep a number of cats; we set mouse traps and insure against fire. In this way we keep the annual depreciation down to ten percent.

R.C.: But the labor and expense!
S.: Exactly! You shrink from the labor and expense. In that case you have another course. Lend me your wheat and I shall replace it pound for pound, sack for sack, with fresh wheat from my harvest. You thus save the labor of building a shed and turning over the wheat; you need feed no cats, you avoid the loss of weight, and instead of mouldy rubbish, you will have fresh nutritious wheat.

R.C.: With all my heart, I accept your proposal.
S.: That is you will lend me your wheat free of interest?

R.C.: Certainly; without interest and with my best thanks.
S.: But I can only use part of the wheat, I do not need it all.

R.C.: Suppose I give you the whole store with the understanding that for every ten sacks lent you give me back nine sacks?
S.: I must decline your offer, for it would mean interest - not indeed positive, but negative interest. The receiver, not the giver of the loan would be a capitalist, and my religion does not permit usury; even negative interest is forbidden. I propose therefore the following agreement. Entrust me with the supervision of your wheat, the construction of the shed, and whatever else is necessary. In return, you can pay me, annually, from every ten sacks two sacks as wages.

R.C.: It makes no difference to me whether your service comes under the heading of usury

or labor. The agreement is, then, that I give you ten sacks and you give me back eight sacks?
S.: But I need other articles, a plough, a cart and tools. Do you consent to lend them, also, without interest? I promise to return everything in perfect order, a new spade for a new spade, a new, unrusted, chain for a new chain, and so forth.

R.C.: Of course I consent. All I have at present from my stores is work. Lately the river overflowed and flooded the shed, covering everything with mud. Then a storm blew off the roof and everything was damaged by rain. Now we have drought, and the wind is blowing in sand and dust. Rust, decay, breakage, drought, light, darkness, dry-rot, ants, keep up a never-ending attack. We can congratulate ourselves here upon having, at least, no thieves and incendiaries. I am delighted that, by means of a loan, I can now store my belongings without expense, labor, loss or vexation, until I need them later.
S.: That is, you now see the advantage you gain by lending me your provisions free of interest?

R.C.: Of course I do. But the question now occurs to me, why do similar stores of provisions at home bring their possessors interest?
S.: The explanation lies in money which is there the medium of such transactions.

R.C.: What? The cause of interest lies in money? That is impossible, ...
S.: .... From their nature and destination your goods are the purest form of what is usually called capital. I challenge you to take up the position of a capitalist towards me. I need your stuff. No worker ever appeared before a capitalist as naked as I stand before you. Never has there been so clear an illustration of the relation between the owner of capital and the individual in need of capital. And now make the attempt to exact interest! Shall we begin our bargaining again from the beginning?

R.C.: I surrender! Rats, moths and rust have broken my power as a capitalist. But tell me, what is your explanation of interest?
S.: The explanation is simple enough. If there were a monetary system on this island and I, as a shipwrecked traveller, needed a loan, I would have to apply to a money-lender for money to buy the things which you have just lent me without interest. But a money-lender has not to worry about rats, moths, rust and roof-repairing, so I could not have taken up the position towards him that I have taken up towards you. The loss inseparable from the ownership of goods (there is a dog running off with one of your -- or rather my -- buckskins!) is borne, not by money-lenders, but by those who have to store the goods. The money-lender is free from such cares and is unmoved by the ingenious arguments which found the joints in your armor. You did not nail up your chest of buckskins when I refused to pay interest; the nature of your capital made you willing to continue the negotiations. Not so the money-capitalist; he would bang the door of his strong-room before my face if I announced that I would pay no interest. Yet, I do not need the money itself, I only need money to buy buckskins. The buckskins you give me without interest; but upon the money to buy buckskins I must pay interest!

R.C.: Then the cause of interest is to be sought in money? And Marx is wrong?
S.: Of course Marx is wrong. He underestimated the importance of money, the nervous system of economic life, so it is not surprising that he went wrong on other things of fundamental importance. Like all his disciples he made the mistake of excluding money

from the scope of his inquiry. He was fascinated by the shining metal disks, otherwise he could never have used the following words: "Gold and silver are not by nature money, but money is by nature gold and silver, witness the coincidence of their natural properties with its functions."

R.C.: Practice certainly does not agree with Marx's theory -- that has been clearly proved by our negotiations. Money is for Marx only a medium of exchange; but money does more, it seems, than "merely pay the price of the goods it purchases." When the borrower refuses to pay interest, the banker can bang the door of his safe without experiencing any of the cares which beset the owner of goods (capital) -- that is the root of the matter.
S.: Rats, moths and rust are powerful logicians! A single hour of economic practice has taught you more than years of study of the text-books.

Chapter 13
Currency Alternatives for Impersonal Markets

> *An effective community is a process, an ongoing collection of interactions and continuing relationships.*
>
> -- Michael Linton

Up to this point, our consideration of exchange alternatives, specifically, local currencies and mutual credit systems, has emphasized the importance of personal commitment within relatively small, limited communities of cooperators. The social dynamics which exist within such groups are a very important element in assuring the workability of these approaches. The social and economic interrelationships within a community are mutually reinforcing and evolve simultaneously.

The formation of mutual credit systems such as LETS is one approach to building community while mobilizing the productive potential of labor which has been undervalued by the market or marginalized by the dominant national and global systems. The building of community is not just a by-product, but an essential requirement if human needs are to be adequately satisfied. But there may be other ways "to get from here to there." There may be some places and circumstances in which a less direct approach might be more workable, at least as an intermediate step.

As Michael Linton expresses it, "Most regions are communities only in name rather than reality. **An effective community is a process, an ongoing collection of interactions and continuing relationships.** " [95] Where these ongoing interactions and continuing relationships are lacking, it might be more effective to approach the problem of exchange by implementing a currency system involving commitments which are more formal and conventional. One such approach would be a commodity-based currency.

A Commodity-based Currency

In an impersonal environment, one may know little or nothing about his/her potential trading partners. In that instance it becomes expedient to have a currency which represents a claim to valuable property. Such a currency would tend toward the "hard," impersonal pole of the spectrum, but the system for issuing and regulating it could, nonetheless, be very democratic. The value of such a currency can be assured by some kind of "cover," *i.e.* it would be a "funded" currency.

Funded *vs.* Non-funded Currencies and Exchange Systems

The local currency and mutual exchange systems discussed thus far have been non-funded. Non-funded currencies are characterized as follows:

1. A non-funded currency is one which is issued on the basis of some exchange transaction or agreement. No assets are held by the issuing agency and the currency is therefore not redeemable, except, of course, in the market, for goods and services.

2. The currency may be issued on the basis of the transfer of value between two parties, one of which (the buyer) is authorized to issue such currency under an agreement with others willing to accept it in payment. [96]

3. The "backing" for a non-funded currency is simply the formal or implied commitment of the buyer to deliver equal value to someone at some future time in return for the local currency which s/he has created and issued. Thus, s/he "redeems" it by making a sale.

4. As we have already pointed out, there must be a limit to the amount of currency which each individual party to the agreement can issue. This limit should be determined by his/her ability to produce. Experience indicates that the limit should not exceed the value equivalent to his/her normal sales volume within a 2 or 3 month period.

The essential features of a funded currency or credit system are as follows:

1. A funded currency is one which is issued on the basis of the transfer to the issuing agency of some valuable assets which are held as "reserves."

2. These assets are held by the issuing agency against future redemption of the currency. The currency may be redeemable on demand of the holder, or it’s redemption may be restricted in some way. It may be redeemable only at certain times, or under certain specified conditions, and/or only by certain specified individuals or groups.

3. The assets which are accepted can be in most any form, however, some assets serve the purpose better than others. Historically, gold and silver have often served this purpose, along with government bonds and other securities, or even other currencies. Some "third world" countries use U.S. dollars as reserves for their national currencies.

4. It is best to use assets which represent value on the way to market or assets which can

be easily liquidated in fractional amounts. Thus, the use of real estate or capital equipment is not recommended, unless the rate of redemption is restricted to conform to the productivity or rate of liquidation of such assets in the normal course of business.

5. One of the usual errors which banks and governments have made is to issue more currency notes than the value of the assets held. This is known as "fractional reserve banking."

6. To be "fully funded," the amount of currency issued must not exceed the value of the assets held for redemption.

7. If the value of the assets held should decline in terms of some other currency or value measure, the value of the currency itself would decline in relation to that same measure.

8. If some official currency, such as the U.S. Dollar, or securities denominated in dollars, are used as backing (reserves) for a funded local currency, then the value of the local currency will fluctuate in accordance with the value of the official currency.

Using Inventories as Reserves

One approach toward issuing a funded currency would be to use the value of inventories as the basis of issue. Since inventories must be maintained as part of the process of doing business anyway, why not use the value of those inventories to provide a sound medium of exchange? Basic commodities in inventory would seem to serve this purpose very well since they provide foundational inputs upon which subsequent economic activity depends, and provide an early indicator of value on the way to market. They would provide a medium of exchange which is grounded in reality and subject to all the natural limitations of the physical commodities which that exchange medium represents. The supply of money thus created would be self-regulating, expanding and contracting in step with changes in the stocks of the basic commodities.

One might envision such a currency being issued through a network of local merchant banks or business associations. The system would be decentralized, locally controlled, open, and subject to audit by a public-service, non-governmental agency. This is how it might work.

Newly produced grain, for example, might be deposited in a warehouse and new currency would be issued to the farmer in return for his warehouse receipt. The farmer would then be able to spend this money into circulation. When the grain is finally sold, to say, a miller, the miller would use money acquired in the market to buy the warehouse receipt allowing him to take possession of the grain. That money then would be extinguished. Having done its job, it is taken out of circulation. The process is shown pictorially in Figure 13.1.

Note that the warehouse receipt makes a complete circuit. It is issued by the warehouse to the farmer when he deposits wheat in the warehouse. The farmer then exchanges the receipt for credits or currency notes at the mercantile bank. The miller buys it from the mercantile bank using credits or notes which he has acquired in the course of doing business. He then

takes the receipt to the warehouse that originally issued it, where he exchanges it for the actual wheat. The warehouse receipt, having done its job, and having arrived back at its point of origin, is destroyed.

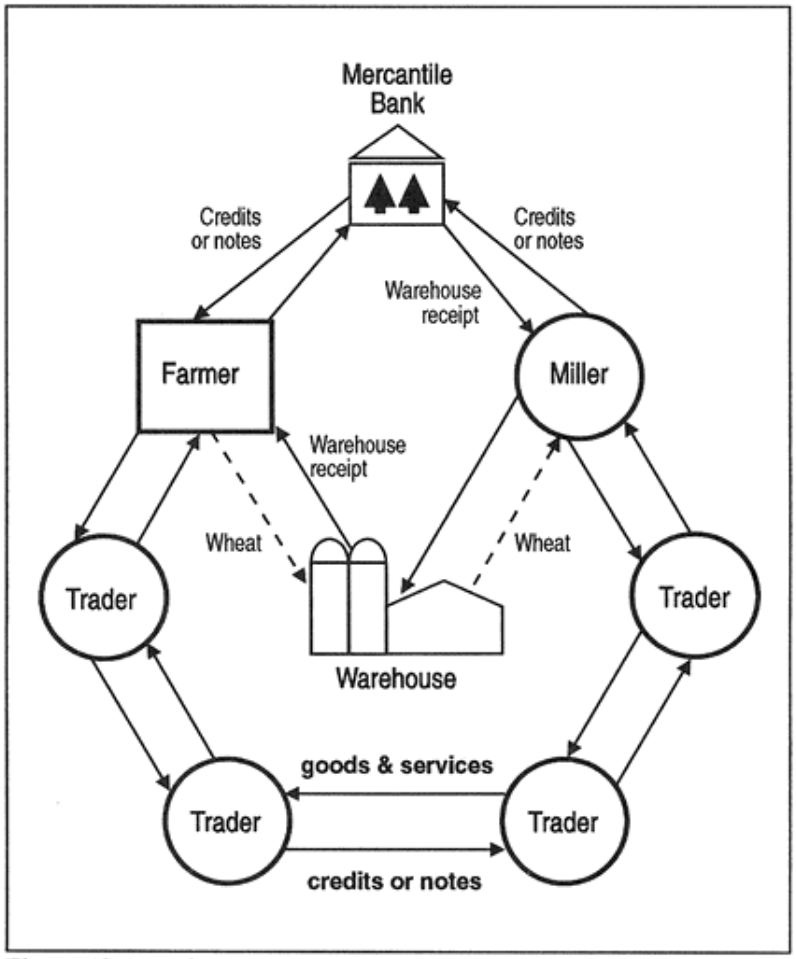

Figure 13.1: A Commodity-based Currency Circuit

Likewise, the credits or notes also make a complete circuit. The mercantile bank creates and issues them to the farmer in exchange for his warehouse receipt. The farmer then spends them into circulation, in effect, exchanging them in trade for goods or services. They may subsequently be used by any number of traders to mediate exchanges of goods and/or services. Eventually, they are returned to the mercantile bank where they originated, and used to redeem the warehouse receipt which was the basis for their issuance. Once this basis is gone from the bank, the notes or credits must be retired.

In the present system, the supply of money is not automatically expanded to provide the means for purchasing the goods being brought to market. Since the supply of money may be artificially restricted, as well as misallocated, increased production typically drives market prices down. This causes producers to produce less, even though the real need and demand for the product may be far from being satisfied. This is one reason why there is hunger amidst plenty; many of those needing the food lack the money to buy it. If the need is there, and the supply is there, the money to match them up should also be there.

The current system makes producers slaves to money. There are three factors which create this condition. First, because money can only come into circulation through borrowing, a producer, one who owns real wealth, is allowed to convert that wealth to money only by becoming a debtor and using that wealth as collateral. Secondly, because interest is levied on this debt, most of the value, over time, is transferred to non-producers who control the money and banking process. Thirdly, because the supply of money is artificially regulated and kept in short supply relative to the amount needed for payments of the debt, some producers will inevitably default on their loans and be forced to forfeit their collateral.

Using basic commodities as the basis for issuing currency to producers automatically in proportion to their production makes the producer "king" by placing the money issuing power in his/her hands. It allows him/her to reap his proper reward for his contribution to the community. It creates the amount of currency necessary to allow the purchase of the goods produced -- the greater the amount produced, the greater the amount of currency in circulation; the more real wealth the community has (in the form of grain, lumber, metals, fuels, etc.), the more money there will be. Thus, the real wealth of the community is reflected (symbolically) in the amount of money in circulation.

If next year's production falls short of this year's, the amount of money retired in the process of redemption of commodities will be greater than the amount of new money issued. This will cause the money supply to contract along with the supply of commodities, reflecting the relative poverty of the community. If, on the other hand, production should increase from one period to the next, the amount of newly issued money will exceed the amount retired in the process of redemption. The supply of money will thus increase along with the supply of commodities, reflecting the relative prosperity of the community. This approach to currency issue would maintain a stable general price level, since there would be no central-bank-created artificial shortage, no legalized counterfeit from monetized government debt, no interest, and no misallocated bank credit.

Producers would not be charged interest on money issued in this manner. The initial amount of money issued on the strength of any particular warehouse receipt would be based upon the price history, stability of supply and perishability of the commodity. The final total received by the producer would be determined by the eventual price which he received in the market. Producers' accounts would be updated periodically to bring them into line with the actual market results.

An Example

To illustrate how this might work, consider an example of a wheat farmer. Suppose the recent history of wheat prices shows them to be fairly stable at around $3 a bushel. Farmer brings in a crop of 20,000 bushels of wheat which he deposits in a bonded warehouse. Upon receiving his warehouse receipt, Farmer takes it to the local cooperative mercantile bank which credits his account or gives him currency at full parity with the recent average price of $3.00. [97] Farmer thus receives $60,000 in currency or credit ($3 x 20,000). Now since wheat is perishable, Farmer is not going to wait too long to market it, if he can help it. Wheat has a limited storage life and proper storage costs money. The longer he waits, the greater his costs and the more the wheat deteriorates. Unless there is an upward fluctuation in the

market price sufficient to offset them, these costs will result in Farmer getting a lower eventual total return.

Suppose Farmer sells his crop two weeks later for a price of $3.20 a bushel or a total of $64,000. His account will then be adjusted by adding the extra $4,000 which his crop proved to be worth over the $60,000 originally issued to him. In the unlikely event that the coop bank were to badly misjudge the market and Farmer could only get $2.60 for his wheat, his account would be debited for the difference of $8,000. If his account balance was insufficient to cover the debit it could be carried over and Farmer would receive that much less when his next crop was deposited.

Now suppose Miller buys the wheat from Farmer for $3.20 a bushel or a total of $64,000. Miller must then take that amount of currency to the bank. Of that amount, $4,000 is credited to Farmer's account and the remaining $60,000 is used to redeem the warehouse receipt. Miller then takes the warehouse receipt to the warehouse, which allows him to withdraw the wheat. The warehouse receipt is then canceled. Since the bank no longer has the warehouse receipt, the $60,000 which Miller paid to redeem it must go out of circulation. [98] When both the warehouse receipt and the credits or notes which were issued on its basis have made the complete circuit, they are then retired. The process begins again when more wheat or other valuable commodities are deposited in the warehouse.

Under this type of system, nobody has to go into debt to bring money into circulation, the amount of money and the amount of value are always in balance, and there is a natural incentive to expedite commerce and keep the money circulating rapidly. There are two reasons for this. First, it is to the farmer's advantage to sell his crop quickly to avoid storage costs and spoilage. Secondly, it is to his/her advantage to spend his/her money into circulation, giving others the means to buy his crop. All that one need do to issue money under such a system is to be productive.

Chapter 14
Community Trading Coupons

> *"Change occurs when there is a confluence of both changing values and economic necessity, not before."*
>
> -- John Naisbitt [99]

Bootstrapping The Local Economy

Everybody knows how discount coupons work -- 10% off, 20% off, 2-for-1, $1 off, etc. -- and every business operator knows that coupons can boost sales. But, even though a well-designed coupon campaign can stimulate business, it is not without its own costs. First, there is the cost of designing the coupon, then the cost of getting it into the hands of the potential customer, and finally, the lost revenue of the discount itself. The hope, of course, is that these costs will be more than made up for by the increased business which the coupons

generate, but that may or may not result. As competing businesses adopt the coupon strategy, its effectiveness tends to diminish and profit margins may be permanently reduced for everyone.

One of the primary factors which makes the use of coupons and other gimmicks necessary, even more than the local competitive climate, is the general deficiency of money in circulation. This is especially true during periods of so-called "recession." But even under "normal" economic conditions, the customers of a particular type of business may have their buying potential restricted because their disposable income is not keeping pace with inflation. This deficiency of money in circulation derives generally, not from any inadequacy in the resources or productive capacity of the local economy, but rather from the workings of remote agencies, including The Federal Reserve Board, the Federal government, large commercial banks, and the central banks of other countries. These agencies, which are closely inter-linked and often act in consort, hold tight control over the media of exchange, and by their policies, which they pursue in their own interests, can stimulate or strangle both national and local economies.

As we have pointed out, however, there are local initiatives which can be used to effectively preserve the integrity of local economies in the face of adverse external conditions; initiatives which are private, voluntary, and do not depend upon government-granted privileges. One such strategy involves the issuance of coupons. There is a way for local businesses to get all of the benefits of a coupon campaign without having to incur most of the usual costs. They can do this if they will cooperate as well as compete.

Suppose a group of businesses decided to cooperate in jointly issuing coupons which they all would agree to accept, not only from the public, but from each other, as well. Let’s say that each business would agree to accept payment partly in cash and partly in coupons, with each business itself deciding what percentage of the price to accept in coupons. This percentage could be based on the costs and value-added of the particular business (subject to some minimum percentage), allowing cash costs to be met, while all or part of the value added by a business would be received in coupon form. The percentage of the purchase price which each business is willing to accept in Coupons would be advertised and posted on the premises. As an example, Primo Pizzeria might advertise, "We accept Community Trading Coupons for up to 30% of the purchase price on any pizza." Of course, those accepting a higher percentage of payment in coupons would probably attract more of the available business than those accepting a lower percentage. Such a coupon might look like the one pictured in Figure 14.1.

Now how exactly would these coupons be issued? This is the key question. It must be done properly to keep the coupons circulating and in demand. The primary factor here is the nature of the agreement among the cooperating merchants. It must be carefully formulated, clearly stated, and adhered to. Ideally, it should be enforced, not by any outside authority or by resort to the legal system, but by the parties to the agreement themselves. Given a well-developed agreement, the opportunity for continued participation should by itself be adequate incentive for adhering to its terms.

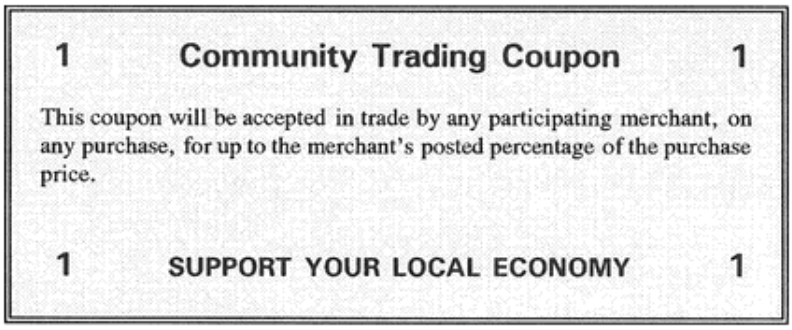

Figure 14.1: Conceptual Rendering of a Community Trading Coupon

Here's one way it could work. The cooperative group could issue standardized, pre-printed coupon blanks to each member business, in any amount desired, up to the equivalent of 2 month's potential average coupon receipts from sales. Thus, a business having average monthly sales of $20,000, which agrees to accept 20% of payment in coupons, could be issued up to $8,000 worth of coupon blanks:

$20,000 monthly sales x 2 months x 20% payment in coupons = $8,000.

Similarly, a business having average monthly sales of $40,000, which agrees to accept 50% of payment in coupons, could be issued up to $40,000 worth of coupon blanks:

$40,000 monthly sales x 2 months x 50% payment in coupons = $40,000.

The recipient business could then "spend" these coupons on purchases it makes from any other member businesses. It would, by accepting the blank coupons from the cooperative, obligate itself to redeem, *i.e.* give back to the cooperative, an equal amount of coupons over some period of time.

If the coupons have a limited life, this would force their redemption to take place within some finite time period. Of course, any business which is a member in good standing could be issued new coupons for the old ones which it redeemed, maintaining the circulation of coupons generally. Members would also agree that, if and when they wish to withdraw from the cooperative, they would turn over the same amount of coupons they originally received, and make up any deficiency using official currency. Some coupons will inevitably be lost or fail to be redeemed by the expiration date. This amount can be credited to an "insurance and public benefit fund" which would be used to cover losses due to bankruptcy or default of some members. Any accumulated amount, over and above that needed for prudent insurance of losses, could be used to support the cooperative itself or be donated to local non-profit community-improvement organizations. The cooperative might also impose certain levies upon its members for these purposes.

A coupon would first enter circulation when a member "spends" it on a purchase. The spender would validate the coupon by signing and/or stamping it, and dating it (or dates could be pre-printed on the coupons). The recipient of the coupon could then, in turn, spend it on purchases from any other member of the cooperative, or anyone else willing to accept it in payment. Thus, the coupons could circulate as a supplemental medium of exchange up to

their expiration date, the holder being assured that they would be accepted, at least, by all the members of the cooperative. This process is depicted in Figure 14.2.

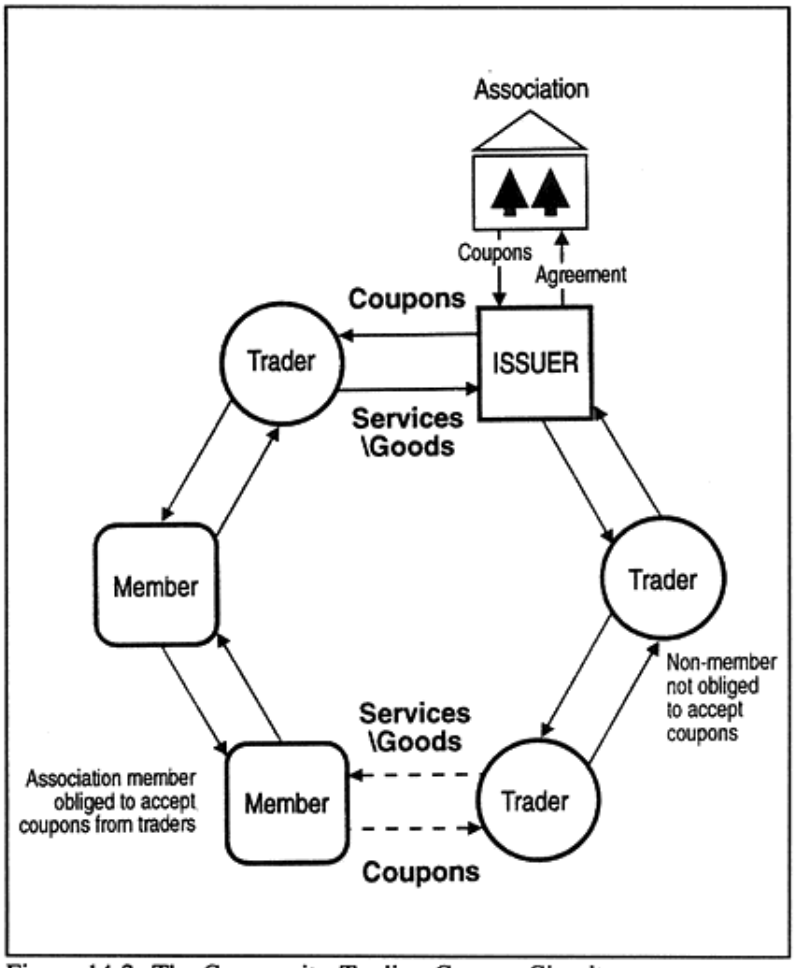

Figure 14.2: The Community Trading Coupon Circuit

The benefits to the member businesses should be apparent. Instead of competing with each other for whatever scarce official money might be circulating within the community, they would be cooperating to supplement that money with a local exchange medium, making it possible to transact a greater amount of trade. Since the coupons would have value only for purchases made locally, they would remain in the community instead of being used to buy from outside the community, tending to make it more self-reliant and less dependent upon imports from outside. Since anyone would be allowed to spend them, their use would benefit not only the members of the cooperative but everyone in the community. As the member businesses begin to thrive, others will be inclined to accept the coupons also, causing the amount in circulation to increase, and giving the community greater control over its own economic life.