

MONEY

A Permaculture Approach

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"Money will decide the fate of mankind."

— Jacques Rueff

MONEY AND POWER IN TODAY'S WORLD

Money is among the greatest of human inventions. Without it, there could have been no scientific and industrial revolution. Money, by transcending the limitations of simple barter, has enabled the evolution of civilization by promoting the specialization of labor. In a barter transaction, you have something I want and I have something you want. We make the exchange and everybody's happy. But suppose you have something I want but I have nothing you want? Then, there

can be no barter transaction between us. Suppose you make tables and I grow wheat. You may be allergic to wheat so you have no interest in trading tables for wheat. However, if others in the community want wheat, we have the basis for a multilateral exchange. You can sell me a table and I can give you my i.o.u. for a certain quantity of wheat. Although you have no use for wheat yourself, you can exchange my i.o.u. for something you need from someone else in the community.

Now suppose that several of us in the community agree to accept each others i.o.u.'s in payment for whatever we offer for sale. Suppose further that we agree to use a standardized i.o.u. form. Now your i.o.u. is indistinguishable from mine and what we have is a money system. Each participant is given a certain amount in i.o.u. forms or notes which s/he can then spend into circulation. If you die while your i.o.u. is in circulation, the holder of that i.o.u. is not stuck with the loss. The community as a whole bears the loss.

This is essentially what the banking system does — it issues standardized i.o.u.'s based on our promise to repay them. In the United States, these i.o.u.'s take the form of Federal Reserve notes (FED notes), or more commonly, bank account balances denominated in "dollars." For example, when the bank allocates to you a sum of FED notes, it calls it a "loan." It typically requires you to pledge some collateral (maybe, your house) and to pay "interest" on the remaining balance until the loan is repaid.

Now what is the problem with all this? It is not that money itself is destructive, quite the contrary. Money is potentially a liberating tool. In the ideal, anything that facilitates exchange enhances the ability of everyone to meet their needs, though, in practice, it may not work out that way. The creation and use of money have been perverted as money has become an instrument of power. This has come about through the monopolization of its creation and the political manipulation of its distribution. It is made available to the favored few and kept scarce for everyone else.

The entire machinery of money and finance has now been commandeered to serve the interests of centralized power. Because money commands resources, and because most of us take it for granted, those few who control the creation of money are able to appropriate for their own purposes vast amounts of wealth without being noticed. In today's world, the foundation of state power and centralized control is the power to create and manipulate the medium of exchange (money).

In this era of transformation, new structures based on different values and assumptions are being developed. These structures are more equi-

table and democratic. They promote the expression of values such as service, fairness, fellowship, and cooperation, rather than greed, privilege, and self-seeking. Thus, they do not compete with existing institutions, but develop in parallel with them, providing operational alternatives that can better serve the needs of people and the Earth.

Money is the vital medium within which we live our economic lives, and it is the central element around which many of our interpersonal relationships are organized. As water is to the fish, so money is to people. We are largely unconscious of it. But when the water is polluted, the fish sicken and die; when money is "polluted," our economy sickens and people suffer as their material needs go unmet. The symptoms of disease are inflation; unemployment; bankruptcies; farm, home and business foreclosures; ever-increasing indebtedness and impoverishment; homelessness; and a widening gap between the "haves" and the "have-nots."

THREE WAYS IN WHICH CONVENTIONAL MONEY MALFUNCTIONS

Conventional money malfunctions in three basic ways: (1) there is never enough of it to allow all debts to be repaid, (2) it is misallocated at its source, going not to those who are most in need or who will use it most effectively, but to political power centers (especially central governments) and those who already control large pools of wealth (like large corporations), (3) it systematically pumps

wealth from the poor to the rich.

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

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

HOW MONEY IS MISALLOCATED

Money, as it emerges from the banks which create it, is not distributed fairly, because the bankers who control it are forced to seek the highest financial return, not the greatest good for the community. Money, banking and finance have been politicized. Banking and government have become intertwined and mutually dependent. In return for its privileged position, the banking cartel must assure that the central government is able to borrow and spend virtually any amount of money it wishes. The result is inflation, which has been called a "hidden tax." But the most destructive aspect of this almost limitless power to spend is that, as E. C. Riegel has put it, "It permits ambitious or designing or fanatical men who are in control of government to light the fires of war."

The people have been cut out of the most important decision process, that of determining how the wealth of the nation, the fruits of everyone's labor, will be spent. Massive expenditures for weapons, military interventions, and legalized "bribes" to client governments, along with S&L and corporate bail-outs which benefit the wealthy, well connected few and increase the gap between rich and poor, are some of the abuses.

HOW MONEY PUMPS WEALTH FROM THE POOR TO THE RICH

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

Everybody pays the cost of interest, even those who do not borrow directly. Interest costs are included in the price of everything we buy, whether it is provided by the business sector or the government. The production of whatever we buy must be financed in some way, and interest is the cost of using financial capital. Lending money at interest, either directly or through financial intermediaries is one of the primary mechanisms by which the rich get richer and the poor get poorer.

If money is improperly issued, the information which it carries is polluted at the very source. By issuing money to unproductive or privileged clients of the money monopoly, and by demanding interest (usury), the banking system redistributes wealth from producers to privileged non-producers. The consistent pattern of official action over the past several decades has been to concentrate economic power by centralizing control over the medium of exchange, limiting access to it, and charging exorbitant prices for its use (in the form of interest/usury).

HEALTHY COMMUNITIES; HEALTHY WORLD

The achievement of a more just and peaceful world depends upon the creation of structures and mechanisms which provide greater personal freedom and wider, more effective, participation. Since adequate participation is possible only within small groups, the emphasis must be upon the strengthening of local communities and voluntary associations. These will form the foundation of a sustainable and humane new world order.

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

What practical steps can be taken to protect local economies from the distorting effects of external monetary and financial machinations, and restore some measure of local autonomy? There are two basic strategies which can be employed in combination: (1) Reduce reliance upon money and markets, and/or (2) Bring money and markets under local, democratic control.

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

WHY LOCAL CURRENCIES?

The fundamental advantages of local currencies or credits are: (1) They can be spent only within the limited area of the community, making it easier to earn them back, (2) They encourage local people to patronize one another rather than buying from outside the community, (3) They can be created locally as needed to conduct business, (4) They are issued interest-free.

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

Official currency can and does circulate far and wide. It can easily be spent to buy goods and services from remote regions. Money spent outside the local community is no longer available to facilitate trading within the local community. It must be replaced by attracting money from outside, either by exporting products, receiving government transfer payments, or attracting tourists and businesses to come and spend.

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

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

There need never be any scarcity of local currency, since it is created by members of the community themselves in the course of trade. Any time two parties wish to make a trade, they can do so even if they have no money. Local currency or credits can easily be created to enable the exchange to take place. The only way in which banks create official money is by making loans. These loans require the payment of interest. In effect, the banks monetize the peoples' own credit. People can cooperatively do this themselves and save the cost of interest.

THE GOOD NEWS

There are many complementary exchange mechanisms springing up in communities around the world. Most notable among these is LETS, which stands for Local Employment and Trading System. LETS is the brainchild of Michael Linton who first conceived and organized it in a small town in western Canada in the early 1980's. There are now literally hundreds of active LETS systems operating in several countries, mainly in the English-speaking world. At last count, there were about 400 LETS systems in Britain, 250 in Australia, 120 in New Zealand, 20 in Canada, 20 in Ireland, 10 in Germany, and a few in other countries. Often mistakenly called a "barter" system, LETS has become the most popular of the complementary exchange alternatives.

This simple accounting system allows people without money to trade with one another by, in effect, issuing their own money. Everyone's account begins at zero. A seller receives a credit which is added to her account, while a buyer's account is debited (reduced). Account balances may be negative, and, in fact, some accounts must have negative balances to offset the positive balances of others. It's like having a line of credit on your checking account, except with LETS, you don't pay interest on your overdrafts and you don't have to pledge any collateral.

For example, Rachel, calls in to report a trade: "Please credit Judith Gray, member number 1066, the amount of 35 green dollars for a hand-knit sweater; debit Rachel Peterson, member number 888." The LETS system registrar will then adjust the account balances for each member. Here, 35 "green dollar" credits are added to the seller's (Judith's) account and a like amount subtracted from the buyer's (Rachel's) account.

SCRIP

Historically, people have provided their own exchange media when official money has been scarce. Such was the case during the Great Depression of the 1930's. As money became more scarce, people tended to hoard what little money they did have. Hoarding slowed the velocity of circulation, which further reduced the volume of business being transacted. Serious human needs went unmet — until people began to organize.

People learned to share what they had, and to bypass the market and financial systems, but what is more important, they also issued supplemental currencies called "scrip." There were literally hundreds of scrip issues put into circulation by a variety of agencies. These included state governments, municipalities, school districts, clearinghouse associations, manufacturers, merchants, chambers of commerce, business associations, local relief committees, cooperatives, and even individuals. These issues went by different names, depending on who issued them and the circumstances of their issuance. Common scrip types were certificates of indebtedness, tax anticipation notes, payroll warrants, trade scrip, clearinghouse certificates, credit vouchers, moratorium certificates, and merchandise bonds. Among these scrip issues there were many failures, but there were also many impressive successes. The use of scrip instead of official money eased the economic hardship for millions of people, making possible trades that otherwise would not have taken place.

ITHACA HOURS

While LETS uses a system of member accounts to which transaction amounts are credited (added) or debited (subtracted), other complementary exchange systems are using paper notes which circulate like cash. A contemporary example of local currency or scrip has been circulating for the past four years in the Ithaca, New York area. The Ithaca HOUR, initiated by Paul Glover, is a local unit of account based on paper notes which are issued into circulation in conjunction with the publication of a tabloid newspaper called, Ithaca MONEY. Since the project was launched in November of 1991, there has been steady growth in both the number of traders using the local currency and the volume of trading. At this point, 5,400 HOURS (equivalent to about \$54,000) have been issued into circulation, and the number of participants accepting HOURS in trade had increased to over 1,000.

Ithaca MONEY, which is distributed free of charge, contains information about the local economy, community self-help initiatives, and the benefits of local currencies, but its main purpose is to publicize the individuals and businesses which have agreed to accept the local currency for the thing they sell. Each issue of the newspaper contains classified-type listings of goods and services being offered or requested, as well as display ads, which can be paid for either in dollars or HOURS.

The means of issuance of HOURS is simple. Notes worth 2 HOURS are issued to each business or individual who advertises in Ithaca MONEY and agrees to accept HOURS in either full or partial payment. Advertisers are then free to spend their HOURS on purchases from anyone in the community willing to accept them; the seller need not be an Ithaca Money advertiser. An additional HOUR is issued to those whose ads have been run in four issues. Those who sign-up or renew at one of the monthly Barter Poducks are paid a bonus of one HOUR.

A commonly asked question about any currency is What is its backing? Like any currency, the value of HOURS is determined by the willingness of people to accept them in trade. Decisions regarding operations are made collectively on an ad hoc basis by those who attend the monthly Barter Poducks, which function as a sort of "town meeting" and make the HOUR

a democratic community currency. The "backing" is the value of the goods or services given up when the currency is first spent into circulation and the commitment of the recipient of the goods or services to accept the currency later for something he sells.

Ithaca MONEY has also begun offering 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." Hundreds of kits have been distributed to people in almost every state of the union, and similar currency projects have begun to spring up in scattered locations.

SERVICE CREDITS AND TIME DOLLARS

Another promising development in cashless exchange is the service credit plan originated by Edgar Cahn. Cahn, a prominent lawyer, conceived the plan as a way of addressing the inadequacy of government programs intended to deal with social problems. He set out to create "a new kind of money," independent of government and central banks, which could be created by people themselves in the process of helping one another. The basic idea is that a person can get credits for helping someone else now, and use those credits later to get similar services for him or herself or a family member. The plan was started with the exchange of a narrow range of services, primarily care of the elderly, education, and child care, but Cahn hopes that eventually the range of services covered can be expanded widely.

The unit of credit in Cahn's service credit scheme is the "Time Dollar," equivalent to one hour of service. The intent is to exchange services on the basis of an hour for an hour. For example, when Mr. Green spends two hours of his time to help the elderly Mrs. Brown do her grocery shopping, he receives 2 Time Dollars credit to his account. Later, when Mr. Green is himself in need of help, he can claim 2 hours of service from someone else in the system. Cahn has been able to gain a great deal of official support at both the state and federal levels. He states: "(I) got it enacted into law, first in two states and the District of Columbia. I got the IRS to rule that it was tax-exempt and not barter in the conventional sense — in the commercial sense." The IRS ruling is a major milestone and has probably been a major factor in the rapid proliferation of Time Dollar programs around the country. There are now close to one hundred service credit programs operating in 26 states, plus more being planned. Missouri alone has 37 service credit programs. In fact, the Missouri state government has been so enthusiastic about the plan, that it has guaranteed the value of service credits. It will go into the market to buy services for those who have earned credits if no one is willing to provide services for Time Dollars. In Miami, participants are earning more than 10,000 Time Dollars a month by helping others.

Time Dollars provide recognition for services that would ordinarily be done by volunteers. One of their main advantages is that they allow participants, e.g. the elderly, teenagers, the unemployed, to "redefine themselves as producers and contributors rather than recipients of charity." Cahn also cites another important outcome of a service credit system — the social, community-building aspect. As he puts it: "The very process of earning credits knits groups together.... They begin having pot-luck lunches; and they begin forming neighborhood crime watch things, and they begin looking after each other and checking in; and they begin to set up food bank coops. [It] seems to act as a catalyst for the creation of group cohesion in a society where that kind of catalyst is difficult to find...."

Regardless of the forms which complementary exchange systems adopt, their common advantage is in providing exchange media that are created locally as needed by traders themselves rather than being artificially limited by some remote authority like the Federal Reserve Bank. They help to restore the integrity of local economies and enhance the social dynamics in communities as people come together to help one another. As these and other creative approaches to exchange continue to develop, we can look forward to the emergence of more cohesive self-determining communities, a more equitable distribution of resources, and a more peaceful world.