NEW ECONOMY, NEW WAYS TO DO MONEY

OLD ECONOMY → The measure of a healthy economy is a growing GDP.
GET REAL → ***A healthy economy meets real needs within ecological limits.***

OLD ECONOMY → All you need is money.
GET REAL → ***You can't eat money. What we need is healthy families, communities, and ecosystems.***

OLD ECONOMY → Booms and busts are inevitable in a modern economy.
GET REAL → ***The boom/bust cycle is a result of letting banks create money.***

We usually think of money as neutral—it allows buyers and sellers to make deals, and that's good. But it's not neutral when we give private banks the right to create money that we taxpayers have to borrow. It gets worse when banks get entangled in exotic speculation, creating trillions of electronic dollars that inflate financial bubbles. Then—because the paper wealth is disconnected from the real economy—the bubble pops, and finances crash. The banks don't know how to untangle the mess, and they stop making loans. Even when things are going well, there's this little problem about interest-based money—it concentrates more and more wealth in the hands of those lending it at the expense of your average home buyer, credit card holder, or tuition-paying college student. In the new economy, there are better ways to get money circulating.

STEPHANIE MCMILLAN FOR YES! MAGAZINE

Money from Nothing

Supplying money should be a public service, not a cash cow for banks

James Robertson

The way money is created and issued, who creates it and in what form—as debt or debt-free, in one currency or another—largely determines whether a financial system works fairly and efficiently or not. In our global village, money shapes our lives at personal, household, local, national, and international levels. The system now in place encourages or compels us all to get and spend money in ways that work against the planet, against other people, and against ourselves.

The great majority of the money supply in national economies is created by profit-making banks writing it into their customers' accounts out of thin air as bank loans in electronic bank-account money—not coins or banknotes. They call it "credit," to disguise the fact that it is actually money.

When money starts as debt, paying the interest in addition to the principal requires more money to be earned as income than has been created. That makes it necessary for the supply of money and the accompanying indebtedness in society to keep growing, which has damaging systemic effects for both the environment and society. For example, the economic growth that supports an increasing money supply requires more of the Earth's resources to be turned into commodities. Growing indebtedness works in favor of those who lend money into existence and against those who borrow and pay interest.

Giving profit-making banks the privilege of deciding the first use of money when it enters circulation distorts the economy. For example, it favors investing in existing assets like land and housing with ready collateral and long-term prospects of appreciation, instead of investing in needed goods and services.

A Sure Recipe for Booms and Busts

Allowing commercial banks to create our money inevitably causes frequent booms and busts. There have been more than 90 in various parts of the world in recent years, according to a U.N. study. During the booms, when the economy is growing, the banks greatly profit by making many loans, thus creating too much money. In the busts, they stop lending, which shrinks the money supply. Then they demand massive bailouts so they can reactivate their privilege of supplying money.

From the bankers' point of view boom/bust cycles are inevitable. Chuck Prince, the outgoing chief executive officer of Citigroup observed in 2007, shortly before he received his multi-million-dollar "golden parachute" for being chucked out of his crisis-stricken bank, "As long as the music is playing, you've got to get up and dance."

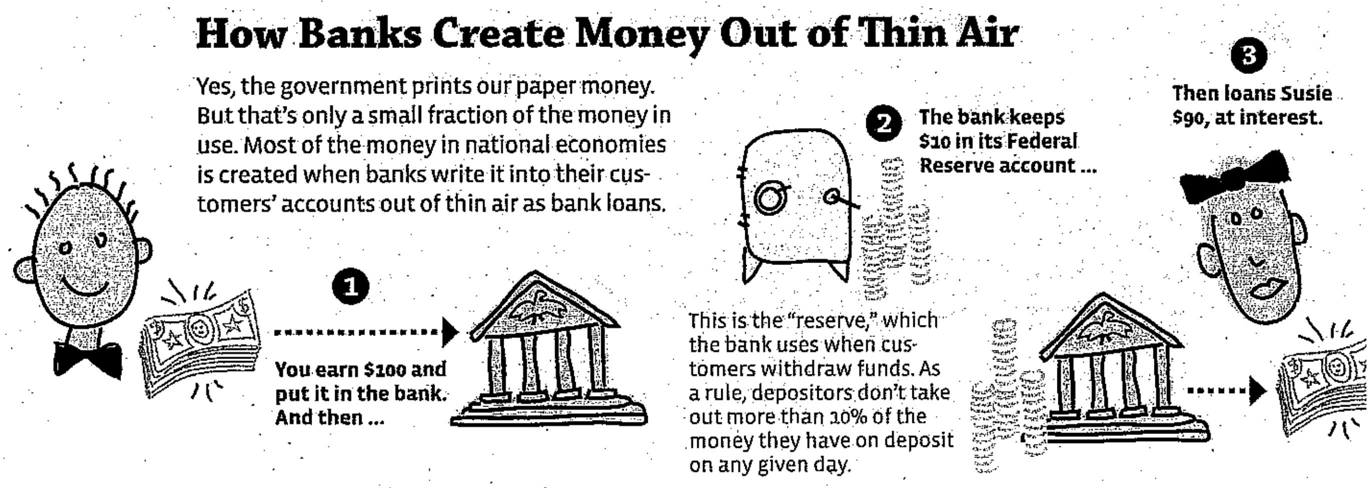
Monetary Reform

But there is an alternative—based on the wisdom of U.S. founding fathers like Thomas Jefferson and James Madison, and later Abraham Lincoln, who all opposed giving "the money power" to the banks and said it should be reserved to the government.

A nationalized central bank would create the right amount of money for the economic conditions, and give it to

How Banks Create Money Out of Thin Air

Yes, the government prints our paper money. But that's only a small fraction of the money in use. Most of the money in national economies is created when banks write it into their customers' accounts out of thin air as bank loans.



the government to spend into circulation debt-free.

This would place the national currency under the control of a public agency responsible for carrying out money supply objectives laid down by the elected government, accountable to the legislature, and subject to democratic control. It would break the boom/bust cycle created by the expansion and contraction of debt. Safeguards would ensure that the agency did not allow politicians to create additions to the money supply for their own electoral or other narrow political purposes.

Commercial banks would, without doubt, resist this change. If they lose the privilege of creating money out of thin air, they'll be competing on the same playing field as businesses that don't get their stock-in-trade as a free gift.

A Step Toward More Radical Reform?

Central bank governors—like Ben Bernanke of the U.S. Federal Reserve and Mervyn King of the Bank of England—are now issuing large sums of new money out of thin air in an effort to get banks lending again. Reducing interest rates virtually to zero has failed to persuade banks to lend money into existence. There is no alternative but to create the necessary money through the central banks.

Conventional wisdom throws up its hands in horror at the idea of a public agency supplying money as a public service. So this practice is called "quantitative easing" and sold as a one-off dose of a very special, costly laxative, designed to clear the constipation of the commercial banks after their gargantuan profit-making "credit" binge. Governments could, however, use quantitative easing, not to shore up the power of the banks, but as a stepping stone toward returning the power of issuing money to democratic control.

Local Currencies and Local Banks

Local currency development is also an important aspect of reform and can make a significant contribution to economic decentralization. It will involve the spread of community currencies like Time Dollars, Ithaca Hours, LETSystems, Chiemgauers, and others already existing in many countries. These currencies can help to support new institutions like local banks, credit unions, and investment funds, as a basis for greater local economic self-reliance.

Local currencies can provide people with a partial response to immediate crises like the present one. They could be encouraged to expand greatly after mainstream monetary reform, when the national money supply will be created as a public service under democratic supervision. But, in the absence of monetary reform, just as they did after the 1930s Great Depression, private banks will do everything possible to prevent the expansion of locally controlled currencies and finance, in order to maintain their profits. As a result, most people will probably remain too dependent on earnings, pensions, benefits, etc., all denominated in a national currency, to commit themselves to decentralized alternative currencies instead.

A Nightmare for the New President

As President Obama struggles with the biggest economic crisis in decades, he may be aware of history. Not only Jefferson, Madison, and Lincoln opposed giving "the money power" to the banks. Woodrow Wilson regretted having "unwittingly ruined my country" by signing the 1913 Federal Reserve Act.

As the cost of reviving the banks' ownership of our money supply becomes clearer in the coming months, the president may wonder if he should avoid Woodrow Wilson's regret and take the historic opportunity offered by this crisis to restore the money power to the people. ❾

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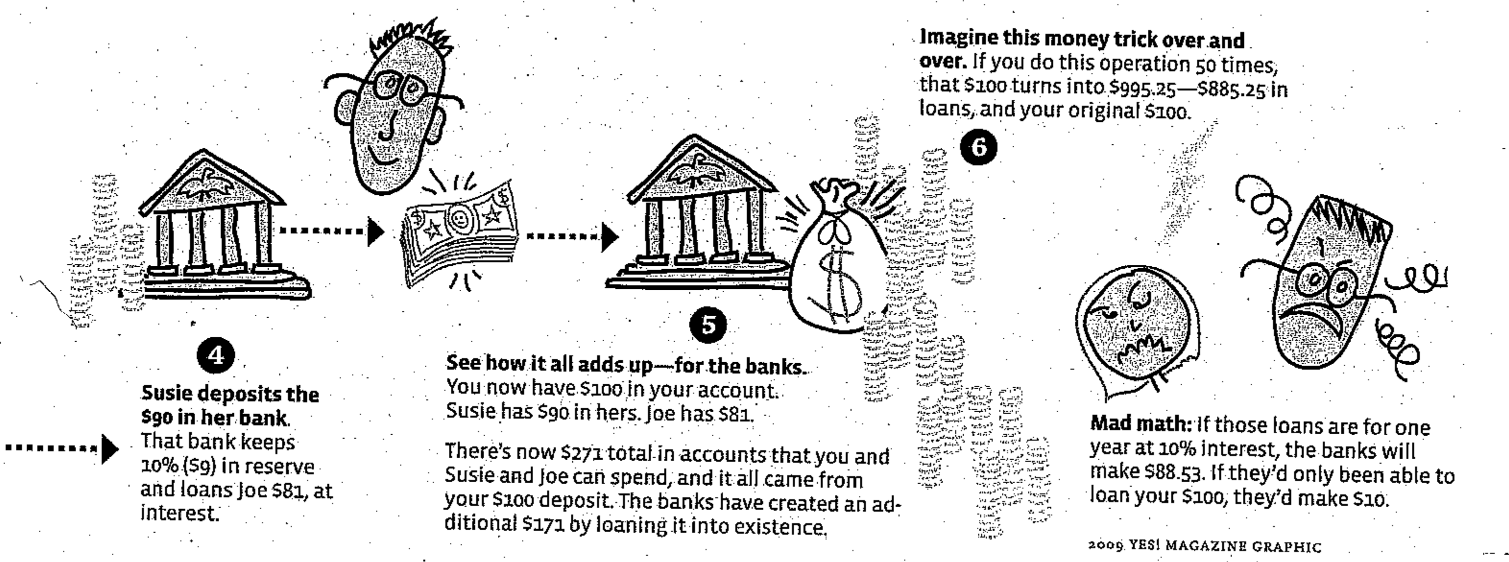
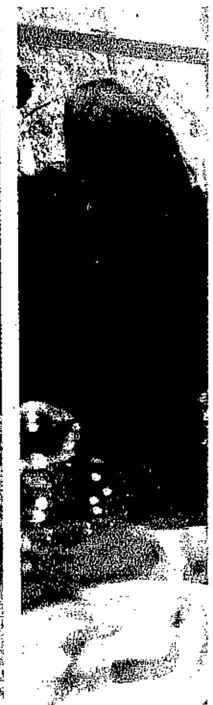
Read how the public Bank of North Dakota keeps the state in the black. ***www.yesmagazine.org/bnd***



2009 YES! MAGAZINE GRAPHIC

Dollars with Good Sense

Local currencies value time, build community, and keep business moving even when credit dries up



Judith D. Schwartz

Total dependence on one currency is like total dependence on one crop, or, for that matter, a single energy source: there's always the risk that crop failure or a cutoff in supply will topple the whole system. This is the scenario we're seeing now—credit has dried up and unemployment is soaring. In small pockets throughout the world, in rural areas and inner cities, and spots as far-flung as Bavaria and Thailand to Massachusetts and Michigan, people are responding by launching their own currencies. Such monetary renegades are not simply thumbing their noses at the dollar (or the mark, or the euro, or the baht...) They are making a carefully considered choice to promote the well-being of their communities.

"From the beginning we had two objectives—to promote the region and promote local charities," says Christian Gelleri. In 2003, Gelleri and a group of his students at a Waldorf School developed the Chiemgauer currency in the Lake Chiemsee region of Bavaria, Germany. Since then, some 3 million Chiemgauer notes (equivalent in value to the euro) have been placed in circulation. The currency, accepted by 600 businesses in the region, typically is spent and spent again 18 times a year—three times more than the Euro. This means that the currency is encouraging trade and cooperation in the region, which keeps the shops and restaurants and artisans active. Think of this faster rate of use (what economists term "velocity") as a kind of reinvestment in the community.

Local currencies can help a community counter some of the problems with conventional money. For example, bank-issued currency tends to flow toward the money centers for investment. If you shop at a chain store, the profit gets whisked out of

Far left, BerkShare board member Asa Hardcastle visits Berkshire Bank in Great Barrington, Massachusetts, to exchange his federal dollars—95 cents for each $1 BerkShare. Center, a now-common sign around town, this one at Rubi's Cafe. At right, Hardcastle buys food with BerkShares from Rubi's Cafe worker Kate Van Olst.

JASON HOUSTON PHOTOS, JASONHOUSTON.COM

town and into the corporate coffers and then, often, to the speculative market. A local currency stays in the community, encouraging local business and trade, adding value to local products and services, and supporting the local infrastructure.

Reliance on national currency means being at the mercy of the national credit situation. As we've recently seen, credit constriction can paralyze local economies. Despite the availability of goods and the need for business, when there's no money, consumers don't buy. Stores don't sell. Start-ups can't get a toe-hold. An alternative currency gives people another way to buy, sell, lend, and borrow. If the community creates its own currency, local business can go on even if the supply of national currency dries up.

At the most basic level, currency functions as a means of exchange (I give you a dollar and you give me an ice cream cone), a unit of value (a dollar, pound, etc.) and a store of value (you can hold onto a dollar as it maintains its worth). It's also a source of information about relative value, and about what is needed to keep trade flowing, for instance, by adjusting the supply of money or the exchange rate so that those in other markets can afford your goods.

With local currency, a community can meet currency needs that the national tender isn't fulfilling. If the idea seems fanciful, there are models up and running—some for many years.

BerkShares

Author and urban activist Jane Jacobs' work was one inspiration for the monetary experiment called BerkShares—considered the best-designed and most successful local currency in the United States, with more than $2.4 million-worth passing from bank to hand to till and around again since fall 2006. The attractive paper bills—one BerkShare is worth $1, but is sold into circulation for 95 cents—are accepted at more than 400 businesses in the Berkshire region of western Massachusetts.

Jacobs pointed out that national currencies cover such broad geographical areas that they provide no local feedback. The way our system is now, regions subsidize each other, and weaknesses are not corrected. Local currencies, however, have clear feedback loops so that trade and production imbalances can be addressed more quickly.

As Susan Witt, executive director of the E.F. Schumacher Society, explains, "Whenever a BerkShare must be returned to the bank [instead of recirculated], that means there is not a source or product available locally to fill that business's needs." For example, say a toy store finds itself stuck with the currency. This presents an opportunity for a local craftsperson to provide the store with wooden figures, games, or puzzles to be purchased with BerkShares.

Witt, co-founder of the BerkShares program, took to heart Jacobs' belief that regional economies need their own currencies to grow and thrive. "Businesses are now trading with other local businesses, so that they're sourcing their printing, accounting, and food products locally rather than out of the area," says Witt. "People are getting off Amazon.com and back to the local bookstore and camera store. They like the personal exchanges and the ambiance, so they stay."

The currency belongs to the community, Witt stresses. And its use »

» has been a valuable exercise in community empowerment. "The use of BerkShares is educating people on the importance of supporting local businesses. With that comes a sense of empowerment—that people can make positive changes in the local economy. The fact of BerkShares raises questions like: Can we issue currency that is not backed by the U.S. dollar? It's prompting people to think about other ways of thinking about money."

On a recent visit to Great Barrington, Massachusetts, I purchased Berkshares at Lee Bank and spoke to Branch Manager Paula Miller, who expressed enthusiasm about the currency. "Customers love it. We've gotten to know other businesses better," she said, adding that it's always fun when clients recognize the work of local artists who designed the bills. "It makes it a little more real."

Time Banking

Time Dollars, now used in settings as varied as small towns, retirement homes, schools, and prisons, respond to conventional currency's limited capacity to measure worth. "Dollars don't measure value very well," says David Boyle, a Fellow at the New Economics Foundation in the United Kingdom. They are good, he says, at measuring "the instantaneous value of Microsoft or currencies on the international exchange. But not the value of, say, a local shop, or of me if I'm very old or young. I might have skills, but not those that are conventionally marketable."

Time Dollars were developed in 1980 by law professor Edgar Cahn, who lamented that crucial work to improve people's lives—such as child and elder care—is much needed but little valued. He saw that many who could do these tasks were idle and felt useless. To get people economically engaged, Cahn proposed a system where people earn credit according to the number of hours they work. These Time Dollars can then be "cashed in" for services, like yard work, tutoring, etc.

Not only does Time Banking promote social justice by connecting people, promoting reciprocity, and improving neighborhoods—it has also proved quite versatile: People have exchanged Time Dollars for wool spinning, "rune making," and having a baby delivered by a midwife. And there's always an ample supply since no community is going to run out of hours.

TimeBanks USA offers a start-up kit that includes instructions and software for starting a Time Bank anywhere. Rose-Marie Pelletier is working on launching a Time Bank in her town of Pownal, Vermont, an economically diverse rural community of 3,500. At a town meeting, Pelletier looked at the listings of delinquent taxes over recent years and saw that they had increased geometrically. She's a math teacher, and the numbers spoke to her; she saw the extent to which people were hurting. "People want to help each other—when we know how to do it," she says. "I see Time Banking as a way of building community, one hour at a time."

Chiemgauer Regional Currency

Conventional currency excels at serving as a store of value—so much so that use of money for actual trade slows down, leaving some local economies stuck. Coin and paper currencies do not lose value like the products one buys with them can, which makes hoarding and speculation attractive, particularly with the enticement of interest. Argentine economist Silvio Gesell described this phenomenon in 1913 and said that money also should lose value: that it should "rust" or go moldy like other commodities, and suggested a penalty, or demurrage fee, for holding onto it. Nearly 75 years later, then-teenager Christian Gelleri read Gesell's work and was fascinated. As a high school teacher, he saw the chance to test the model with a local currency. This is how it works: Each quarter, every Chiemgauer bill loses 2 percent of its value. In order to spend the money later, the consumer needs to put a special sticker on the paper currency.

In the beginning, Gelleri got complaints. Then people figured out how to make the model work for them. For instance, one cinema owner said that business went way up at the end of the quarter when people wanted to shed their currency. Increased cash flow at quarter's end was helpful for accounting, he said. The 2 percent loss, he added, was insignificant compared to the advertising he'd have to buy to secure the same level of customer loyalty he has from accepting the Chiemgauer.

A consumer can exchange euros for Chiemgauers at 50 offices in the region. Three percent of the purchase price goes to a nonprofit the buyer chooses. So far, more than $100,000 euros have gone to charities such as school athletic programs and environmental groups. The "good cause" component reinforces people's investment in the currency, and in their community.

Maybe we're asking national currencies to do too many things. As Thomas H. Greco, Jr. points out in his new book, *The End of Money and the Future of Civilization*, some functions are inherently contradictory: If money is for trading, you want to use it; if money is to store value, you want to save it. Greco and others such as David Boyle say that people could be better served by separating out the functions of money—and using different currencies, depending on whether you are, say, meeting friends at a local café or saving for college.

Back on Main Street in Great Barrington, Matthew Rubiner, of Rubiner's Cheesemonger & Grocers, says the issue of local currency has shifted quickly from the theoretical to the here and now. "When BerkShares started we talked about what would happen if the economy falls apart and we were really forced to look local." The economic downturn, he says, has "brought the question into bolder relief."

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Put Your Money Where Your Life Is

AMERICANS WANT TO INVEST LOCALLY. WHAT'S STOPPING THEM?

Michael Shuman

The Obama Administration believes that the best way to repair our financial system after the Great Crash of 2008 is to improve the performance and oversight of global banks and investment firms. A growing number of Americans, however, would prefer to pull their retirement savings out of these high financial fliers altogether. They would rather invest in their communities. The problem is, they can't. Outdated federal securities laws have left Main Street dangerously dependent on Wall Street, and overhauling these regulations turns out to be a hidden key to economic revitalization.

There are two reasons Americans increasingly wish to invest in locally owned businesses. First, they understand that these businesses are the real pillars of a prosperous, sustainable economy. A growing body of evidence suggests that every dollar spent at a locally owned business generates two to four times more economic benefit—measured in income, wealth, jobs, and tax revenue—than a dollar spent at a globally owned business. That's because locally owned businesses spend more of their money locally and thereby pump up the so-called economic multiplier. Other studies suggest that local businesses are critical for tourism, walkable communities, entrepreneurship, social equality, civil society, charitable giving, revitalized downtowns, and even political participation.

Second, many Americans no longer believe Wall Street's assertions that a global, publicly traded corporation is the safest place to invest their savings. According to data in *Statistical Abstract*, sole proprietorships (the legal structures chosen by most first-stage small businesses) are nearly three times more profitable than C-corporations (the structures of choice for global businesses). Moreover, a bunch of »

Community Investment: It's Classic

The appeal of investing in your own community isn't new. If you've seen the 1946 film, *It's a Wonderful Life*, you've witnessed Jimmy Stewart's heroic speech to stave off a bank run on the Building and Loan Association. (It goes something like this: "I don't have your money, George! It's in Harry's house! And Martha, your savings let the Wilsons build their house!") Half a century later, you can still put your dollars in a local bank or credit union that invests in your town or region. And though federal regulations limit community-scale stock purchases, there are several other ways to revive the old classic—community investment.

➥ Support Community Enterprise

If you've ever bought a share in a local farm's harvest, you've participated in Community Supported Agriculture (CSA). Now consider Community Supported Enterprise (CSE). In a CSE, your up-front investment in, say, a woodworking shop earns furniture purchases over a period of time. For instance, in Morrisville, Vermont, a CSE saved a local restaurant from going out of business: Each CSE member gave the owner $1,000, and received $90 restaurant coupons every quarter.

➥ Bank on Small Businesses

Members of the Self-Help Association for a Regional Economy (SHARE), a program of the E.F. Schumacher Society, can direct their bank deposits toward loans to local businesses of their choice. Members have lent to businesses like "Rawson Brook goat cheese ... or Marty's Washing Machine Repair Service," says the SHARE website. Members often know their borrowers by name.

➥ Invest in Community Loan Funds

Community loan and redevelopment funds offer the chance to finance community projects in your region. For instance, Vermont Community Loan Fund (vclf.org) provides loans and grants for affordable housing, community facilities, local businesses, child care programs, and other enterprises "that benefit lower-income Vermonters." Investors get an interest rate that usually lags a little behind mainstream investments, though it looks generous by current standards.

Jeff Golden is the author of *Unafraid: A Novel of the Possible*, www.unafraidthebook.com. More ideas for sustainable investment at ***www.YesMagazine.org/golden***

» global trends, like rising energy prices and the falling dollar, are making local businesses increasingly competitive. Meanwhile, Americans are shifting their spending from goods to services, a trend that promises to expand the local business sector, since most services depend on direct, personal, and, ultimately, local relationships.

Locally owned businesses currently generate half of the private economy, in terms of output and jobs. Add in other place-based institutions—nonprofits, co-ops, and the public sector—and we're talking about 58 percent of all economic activity. So in a well-functioning financial system, we'd invest roughly 58 percent of our retirement funds in place-based enterprises.

Yet local businesses receive none of our pension savings. Nor do they receive any investment capital from mutual, venture, or hedge funds. The result is that all of us, even stalwart advocates of community development, overinvest in the Fortune 500 companies we distrust and underinvest in the local businesses we know are essential for local vitality. This situation represents a colossal market failure.

The good news is that much of the problem could be solved by modernizing securities laws. Today these laws place huge restrictions on the investment choices of small, "unaccredited" investors—a category in Securities and Exchange Commission vernacular that includes all but the richest 2 percent of Americans. The regulations prohibit the average American from investing in any small business, unless the business is willing to spend $50,000 to $100,000 on lawyers to prepare private placement memoranda or public offerings—thick documents with microscopic, all-caps print that no human being has ever actually been observed reading.

One easy reform would be for the SEC to allow low-risk public ownership of locally owned microbusinesses. By *low-risk*, I mean that no person can hold more than $100 worth of any one stock—which means that we're freeing up people to engage in the risk equivalent of a nice dinner for two. By *local ownership*, I mean that stock shares can only be bought, held, and sold by residents within a state. And by *microbusinesses*, I mean any business with a total stock valuation on issuance of under $250,000.

This legal reform would be even more effective if supported by a few others:

Micro-investment funds. Let's allow small investors to pool their money in backyard investment funds (again, up to $100 per person) that in turn create diverse portfolios of local stocks. (Only the rich can invest in such funds now.)

Co-op investment funds. Let's allow cooperatives, most of which are owned by workers or consumers in a single community, to set up investment funds empowered to make local investments on behalf of their members. (Currently, they can only invest members' capital in businesses owned and run by the co-op itself.)

Local stock exchanges. Let's allow private companies to facilitate local trading of microbusiness stock electronically, like Prosper.com and Kiva.org do for microloans. (The SEC now bans small, electronic exchanges like these from trading equities.)

Pension fund participation. Let's allow any pension fund that places as much as 5 percent in local securities, either directly or through microbusiness investment funds, to meet legal standards of "fiduciary responsibility." (Current regulations define the term in a way that directs virtually all such investments to global companies.)

These new community-based funds and investments, of course, need to be overseen to prevent fraud and ensure accountability. But since all these activities are intrastate, these new rules can be left to the existing securities departments in the 50 states. Once state-level laws are put into practice, many of the absurd requirements of the SEC—like expensive audits and lengthy legal filings—may finally disappear.

Were these reforms enacted nationally, literally trillions of investment dollars could begin to move into the local business economy.

Were these reforms enacted nationally, literally trillions of investment dollars could begin to move into the local business economy. Entrepreneurs, hungry for new capital in the post-meltdown credit crunch, will begin to restructure their businesses to receive microcapital. Investors terrified of betting all their money in the global casino will start shifting their investments to local businesses they know, trust, and can visit and "ground-truth" with tough questions.

The result will be a nation of stronger local economies, with American investors placing more and more of their money into backyard businesses rather than into the untrustworthy hands of distant speculators.

Finally, there are two other compelling features about these ideas. First, they cost nothing. And second, the experimentation opened up at the state level will invite all kinds of grassroots engagement and inventions. Instead of spending billions more in federal taxpayer dollars to prop up dubious big financial institutions, why not create a system that's more stable, safe, lucrative, and democratic—for free?

Michael Shuman is director of research and public policy for the Business Alliance for Local Living Economies (livingeconomies.org) and author of *The Small-Mart Revolution: How Local Businesses Are Beating the Global Competition* (Berrett-Koehler, 2007).