



# *Voor hetzelfde geld*

*Hoe geld de wereld stuurt  
en welke alternatieven er zijn*

*Strohalm*

*Uitgeverij Jan van Arkel*

## **MONEY AND ITS ALTERNATIVES**

### ***How money controls the world and the alternatives to change it***

By Henk van Arkel and Guus Peterse

Translated by Gerard van der Rijst and Edited by Stephen DeMeulenaere

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## **This book consists of three parts**

These three parts can also be read separately from each other.

Part I shows a number of problems, shows which role money and interest play in this and shows already a glimpse of how we might bring about improvements.

Part II gives a theoretical frame: it gives an analysis of how the problems arise and in doing so an impulse of how they can be solved.

Part III shows various ideas, initiatives and possibilities that exist in this field and that make concrete the perspective that we see gradually getting shape.

*In this book you will regularly find frames with remarks, summaries and illustrations that touch on the main points of the accompanying pages*

# **MONEY AND ITS ALTERNATIVES**

## **Introduction**

We can think of many reasons why we would like to change the world. You just have to look at the condition of nature and the environment, the gap between the rich and the poor, to the hunger in the world, to the growing loneliness of many people or to the cultural unification and you would, in fact, not wait a day longer. The Western economic system has pervaded every corner of the world. Everywhere it subjects the cultural identity of people and region to the global 'stuffing, working and pinching match that we call economic order'. These are the words of Piet de Visser, former Member of Parliament for the PvdA (the Dutch Labor Party). It is an economy that has been determining our lives gradually and completely and that has subjected man. This is what we would like to change.

But Strohalm does not want in the first place to publish a book on why we would *like* to change the world, but on how we *could*. So we hope that this book offers a perspective, arouses enthusiasm, and offers a prospect on alternatives, maybe on real change. For this is what we have in mind with this book, this is why we have written it: to show that changes are possible, and to show which initiatives are taken worldwide that can help to bring about change. We are of course not the only ones working on fundamental change in order to build a new world. A lot is taking place already.

Let us not think at all that it is not possible, that we cannot change the world. Isn't everything changing already? What is still the same as, for instance, forty years ago? Social relations have changed, culture has changed and technology has changed.

Fashion has changed at least forty times and even the centers of power have moved. In the mean time we have been on the moon, information flies around the world with the speed of light, almost all of us are driving a car and we don't need to travel more than one day to reach the other side of the world. Just to mention something. Our horizon has broadened enormously in many aspects. Much of what was then impossible and unthinkable, is ordinary now, common and within reach for everyone.

That provides us with a splendid starting-point. For is it not much easier to change the direction of something that is moving than to move something that stands still?

Compare it with a river that is flowing from a mountain. We had better not try to stop the water, but by making small changes in the upper course we can make the river flowing down somewhere else. This way we are also able to change the switches in an early stage, to put society in an other track. We should not try to stop developments, we should not row against the flow, but we should give space to new ways along which the water can run down.

### **How can we change the switches?**

To change the world, you change the minds of people. The mentality and actions of people are the beginning of all problems and of all solutions. So let us first change the conditions in which we become what we are, in which we come to our actions. Let us change the factors that control our actions. For we are to a high extent a product of the environment from which we originate, and by changing that environment we can also change society.

### **How can we change the environment?**

A society is just like a landscape and a country. The situation in the Netherlands is the consequence of innumerable activities, investments, decisions, deliberations, policy considerations and so on. But the geographical situation, relief, condition of the soil and the climate have heavily influenced each of those decisions, policy consideration etc. We can bring about nothing that is not allowed by these circumstances. Winter sports are hardly developed in the Netherlands and we import pineapples and bananas from far regions, but we did develop a flourishing port business and accompanying industries in the delta of some large European rivers, for they were there already. These seem absolute, unchangeable basis conditions, but they are not always fixed and certainly not for always. This way we have constructed dykes to bridle the sea and the rivers. This has enabled us to cultivate large plots of land that were once part of the sea bed before and to use them for food production. This way the dykes themselves have become a part of the conditions. They have become a strong steering element in the scenery.

Society is exactly like this. A society is a complicated play of forces of innumerable mechanisms, patterns, causes and consequences. Wishes, desires, possibilities

and impossibilities of people of all kinds and those of businesses, institutes and authorities, all play a role in this. Add to this all possible interactions, incomprehensible relations, feedback and other mechanisms and then the image of a rudderless society arises. A society in which almost none of the measures that an authority takes to turn the tide, causes the expected effect and in which we cannot bring about any focused change either.

But is that the right image? Are patterns like individualization and economic globalization coincidental? Or do underlying prior conditions bring them about?

Society may be a complicated play of forces, a number of prior conditions indicate the borders within which it can develop itself, prior conditions that stimulate certain developments and resist other ones. These prior conditions are often so much interwoven with the developments that we can easily overlook them and forget to discuss them. But to a large extent they determine which developments are possible and which are not. Suppose that we could change one of these prior conditions. That could have enormous consequences. New developments come into view. Before we built dykes, we had accepted that the sea shaped the scenery. After this we didn't any longer. Today we can't even imagine what the Netherlands would look like if there had never been any dykes. Exactly like this we can create in this society prior conditions that make possible those developments that are now regarded as utopian and impracticable.

If we really wish to change society, we must change the prior conditions. And for that reason we must trace those prior conditions for which we have a better alternative. If we succeed in introducing new prior conditions, we create space for an other kind of development and new changes will arise.

### **Which prior conditions can we get busy changing?**

Some are imposed on us by natural causes. We have no influence whatsoever on physical and biological limitations as the quantity of land, the quality of the soil, climatological factors and the present raw materials. Other prior conditions we ourselves have introduced them, like the state of technology and the many agreements and laws that are controlling economic actions. They strongly determine economic and social developments, but our means are just too few to influence them. A prior condition that does offer opportunities is the present-day tax system. We can very well opt for an other, more human and environment-friendly tax. For that reason is that other tax system one of Strohmalm main points. Yet this is not what this book is about.

'Money and its alternatives' takes another point of view: the money system. That seems an impassable road that we are normally encouraged to avoid as it is "too complicated". At Strohmalm we had also looked upon this matter this way, until one day we heard a story. In Lignières-en-Berry, a village in France, a number of people had issued their own money. It was a totally different kind of money, with totally different social consequences and it appeared to push the existing money out of the market!

What two people in France can do, we can do too! And with this we have a very essential means of change in our hands. For everyone will agree that money is one of the most important formative elements in today's world. Money has enabled man to start a more complex economy and it has given an enormous stimulus to social developments. Money, however, has become a lot more than only a medium to facilitate trade. The money system forms a driving force behind innumerable developments in the economy and society, both local and worldwide.

And what does the example of Lignières-en-Berry show us? There is an alternative for the present money system! For what appeared: after a relatively short time a large part of the local trade occurred in the new money and it had spread itself widely. It appears to be possible to introduce an alternative for the present capitalistic money that is strong enough to push back that kind of money. Is it subsequently not possible to fight the consequences of that capitalistic money and to take another road as well?

Lignières-en-Berry is not a case on its own. Everywhere in the world initiatives are taken to deal differently with money in local economies. In a few years in the Netherlands and Belgium have arisen tens of little local money systems in which thousands of people experience that it is very well possible to arrive at an effective, mutual exchange without the actual money.

Of course, money is not at all the cause of all evil, but it offers an excellent opportunity to bring about change. For this reason the role of money is central in this book, and in particular the opportunities for the changes that are offered by money. We shall let you get acquainted with what knowledge and experience there is and what is already taking place. We shall let you experience the preparation of experiments that could lead to a breakthrough. And we shall let you experience the discovery that examples of how it can be done differently are arising all over the world. We are making progress step by step, that bit for bit we are building on an economy that has a future, an economy that offers a perspective to each individual in the North and in the South, now and in the future, an economy that has to offer more than the present one to everyone, to enterprising people and to companies as well. And an economy that has not the disrupting effect on our lives and our environment that is characteristic of the current economic system.

## **THE WORLD VIEWED THROUGH MONEY SPECTACLES**

"Money makes the world go round" the well-known saying says. If money is such a determining factor then, why don't we look how we can force changes with that money?

If we want to organize the world in a different way, does money not offer us the possibility to do so?

We are fully aware that this point of view is unilateral. Mentality, history, technical developments, they all have a great influence. But the nice thing about this point of

view is that it offers us starting-points to change matters. And that is what we want. We want to make structural steps forward.

For this reason we view in the first part of this book, as it were, through money spectacles to the world and thus we discover the influence of the money system on well-known phenomena such as haste, poverty and pollution. For many it is perhaps a new view and it could well provide an entirely new perspective. It is just like when you see a dilapidated, little house that looked picturesque at the fringe of a wood all at sudden in the middle of a neglected city quarter. Or vice versa.

# Chapter 1

## A new view on old problems

Around 2500 BC the Sumerian civilization of Mesopotamia (approximately within the country of Iraq today) was hit by enormous floods. Thousands of people died and large amounts of agricultural lands were washed away. This catastrophe was such a determining factor for the history of the Sumerians that the Sumerian list of kings made a distinction between “kings *before* the floods” and “kings *after* the floods”.<sup>1</sup>

How could this catastrophe have happened?

The Sumerian culture was based on a well-developed agriculture of irrigation. But when the agricultural quality of the lowlands was exhausted, the higher ones were deforested.

Even at that time unbridled expansion was checked by its ecological limits, and from this foundation the Sumerians were the first who introduced a more or less modern money system. The temples were a sort of central bank and brought into circulation sacrificial coins that functioned as money. ‘Debt to the Gods’ was inscribed on them.<sup>2</sup>

This money became concentrated into the hands of a few people who spent it among other things on new cultivations, new dykes and new irrigation canals.

Is there a relation between this money system and the “progress” that had such fatal consequences? Is this an example of how money can disrupt a society? Are there more of such ways in which money influences society and people?

### 1.1 The rush culture

“Lack of time is a new form of poverty” said the headline of the Dutch newspaper *De Volkskrant* on July 6, 1996. Research in Scandinavian countries showed that people who have a job are not lacking anything in the material sense. However, they have hardly any time to see their children growing up.<sup>3</sup>

It won't be any different in the Netherlands and in Belgium. More and more it seems that for many people not money but time is scarce. And who does not recognize this? With over-full diaries we haste from appointment to appointment. After six o'clock we find just enough time to do some shopping and after eight we are present again at the district meeting or at the sporting club.

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<sup>1</sup> Het Sumerisch Testament, G. Hamming, Publisher Jan van Arkel, Utrecht, 1996.

<sup>2</sup> A History of Money: from ancient times to the present day, Glyn Davies, University of Wales Press, Cardiff, 1994.

<sup>3</sup> Tijdsgebrek is nieuwe vorm van armoede, Mirjam Schöttelndreier, *De Volkskrant*, 6 juli 1996.

And else, when everything is cleared away and the children have gone to bed, the evening has past for the half already. We should almost go to bed ourselves, because tomorrow we will have to get up early to be ahead of the traffic jams. TV-dinners, microwaves, dishwashers and food processors should yield us extra time. Stopping trains have become too slow for us and are replaced by fast, interlocal trains and right through the Netherlands new railways are being constructed to get in Paris *another* couple of minutes earlier.

“In the modern *hurry society* time is being saved at all points”, ascertains the sociologist Raf Janssen. “We save time in the transport of people, of goods and of information. We save time in doing our shopping, the housekeeping, and even in eating. We gain large amounts of time, but we have less time than ever before.”<sup>4</sup>

Indeed, all our efforts to save time rarely lead to the desired result. Take mobility. “Faster transport does not save time”, claims environmental scientist W. Sachs of the German Wuppertal Institute for climate and energy research.<sup>5</sup> In history it has always appeared: the faster we travel, the larger the distances we cover. “Our perception of distance changes as well. You find it more and more normal to travel far.”

Soon competition between various transporters does not lead to price fighting but to *travel time fighting*. Sachs: “Airline companies will react on the high speed train by shortening the check-in time or by speeding up the transfer to the airfield. Consequently the railways will try to speed up the trains” and etc.

*Lack of time is a new form of poverty. The Central Bureau for Statistics has calculated that it soon costs more time to earn the money to pay a car, then you win time by driving a car.*

Speed is continuously increasing. However, it is apparent to us that it does not yield any time, but only haste. Everything has to go faster. For time is money and so it is used for the benefit of that money, so that we have no time left and we have to hurry, for time is money and a future waits and later, later and later...

We are in a rush, because the costs are growing above our heads, because else we run the risk of missing nice profits, because else our products are getting out of date, because...

*God gave the African time and the European the clock*, says an old African proverb.

## **1.2 The unnaturalness of the rush economy**

Is all this hurrying a natural phenomenon? Is the spirit of the times. Or do structural factors play a role in this?

<sup>4</sup> Over de grondprincipes van ons systeem, interview with Raf Janssen, Strohalm Nieuws, februari 1996.

<sup>5</sup> Milieu schreeuwt om utopie van de traagheid, Peter Giesen, De Volkskrant, 5 november 1996.

If we look at business, we see the rush in an ever higher production speed. Ever faster production means are replaced by newer and faster ones. Earlier and earlier production means are replaced by new and faster machines and buildings. The terms of writing-off machines and buildings are getting shorter and shorter. Younger and younger workers are already too old. After three years computer appliances are out of date and need to be 'replaced' or 'upgraded'. And ever sooner investments must be earned back, ever sooner they must yield profit. The term of thinking is getting shorter and shorter. The effects on the environment are 'not relevant from an economic point of view'.

We found two examples that make something clear about the backgrounds of this.

#### *To catch all whales*

The first example comes from the journalist Paul Frentrop. He writes<sup>6</sup>:

"(...) From a financial point of view it yields more to harpoon all whales, to sell their cod-liver oil and put the proceeds on the bank, then to let the whales propagate and subsequently catch a part of them each year. This is a consequence of the fact that the value of money by the real rate of interest increases faster than the number of whales increases in a natural way. "

A same sum in arithmetic forms the economical background of the destruction of the tropical forest. This forest, too, yields more money in interest when it is cut down than it does when we manage it carefully and pick the fruits and other products from it for years on end.

#### *Eucalyptus Trees in Portugal*

We can find another example in Portugal. There, more and more natural forest is changed into eucalyptus plantations. On a large scale eucalyptus trees are grown for the production of paper. Slope after slope is occupied with endless numbers of these poor, stiff figures. The traditional cork oak woods in particular are disappearing for these plantations. Eucalyptuses are very harmful to the ecological balance. They are fast growing trees that use a lot of water and exhaust the soil. However, just because they grow so fast they give a high output. In the long run unfertile soils are left behind and washed away from the slopes.<sup>7</sup> The cork oak, too, is economically valuable. Portugal is even the most important cork-exporting country in the world. But though in the long run eucalyptuses assumably yield less money than cork oaks, they do yield money faster.

To the forest operators the much greater ecological value of a cork oak forest is not outweighed by these fast profits. For these profits can yield more output immediately. The natural growth of cork oak woods cannot put up with this.

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<sup>6</sup> Paul Frentrop, NRC-Handelsblad 31-10-90.

<sup>7</sup> Robert Ketelaar, Amoebe, November '92 / April '93.

The rush we see everywhere around us does not appear out of the blue.

The examples show very clearly the relation with the automatic increase in worth of money. The fact that much money becomes automatically more money in course of time, narrows, as it were, our horizon and makes us to a high extent shortsighted. For it makes having money in the present much more worth than the promise of income in the future. In other words: it is necessary to earn so much money as possible as soon as possible at the cost of everything. In this system humanity can be very rich, while the earth is a desert and the oceans are empty.

*Rush is not a natural phenomenon, but arises under the influence of the money system. Cutting a wood in one time and depositing the proceeds into a bank account with interest, yields more than harvesting it in a durable way.*

The money system plays a crucial role in this. Who makes profit fast, knows that the returns will extend this profit in later years. Interest forces an entrepreneur to earn back investments sooner. For the longer it takes before he pays back borrowed money, the more interest he will have to pay. And the longer it takes before he makes any profit, the more interest there will be on the profits he loses. A bank, too, must be profit as soon as possible on the money that people put on this bank. If the bank is not successful enough in doing so, then it will suffer a loss. In this way interest forces us to participate in a hurry economy and in doing so to a rush culture.

### **1.3 From economical to uneconomical**

Interest has still another effect. In circles of economists the desirability of investments in preventing the hothouse effect is being discussed. Should we spend money on limiting the CO<sub>2</sub>- emission? Or are the costs of a climatic change lower than the costs of the investments that are needed to *prevent* this?

In this discussion the rate of the interest plays a large role. For the money that we spend to prevent the hothouse effect, could have been invested in profitable investments as well. And the higher the interest, the more these investments would have yielded and the more prevention would in fact have cost us.

Interest means that these productive investments, however useful and sensible, are financially unprofitable when they yield less than the interest. We want to receive interest on our savings and anything that yields less is not worth the investment. Anything not worth the investment will usually not be invested in.

Prof. Dieter Suhr, professor at the University of Augsburg, shows us an example:<sup>8</sup>

Suppose you want to heat your house. You have the choice between a boiler on natural gas and solar collectors. The solar collectors are more expensive to buy, but the sun is for free. The natural gas boiler is a lot cheaper, but natural gas is far from

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<sup>8</sup> From: Van Grenzen aan de Groei naar Greep op Groei, Henk van Arkel and Guus Peterse: Greep op Groei, ed. Frank Biesboer, Strohm, Utrecht, 1993.

free. When the life span is long enough, you will make good the extra costs of the purchase, as long as you do not include the interest.

But of course you do. For the amount that you spend extra on sun collectors you can put on the bank. That yields a certain amount of interest. So the sun collectors must not only surpass the profit of the natural gas boiler, but also this lost interest.

When the interest rate is low the sun collectors will win, but already at an interest of 5% natural gas appears to be more favorable. The environmental damage that is caused is left out of consideration. That will not be claimed on the investor. This example makes it clear how great the influence of interest can be on the choice of the investment to be made. Investments in durable provisions often have a high initial investment and low costs of use. Because of this these costs can only be realized by a low interest. Whether an investment is profitable or not, whether a certain job earns itself back or not, does not only depend on whether the proceeds covers the costs or not, but is largely determined by the *arbitrariness of the interest rate*.

Of course, capital also grows in other ways than interest: by profit from investments, profit-taking on stocks and so on. For this reason economists *discount*: they 'translate' the value the guilder now has, into the future value of that guilder. Such an estimate is of course a gamble, and this gamble is based on an estimate of how much invested money will yield on an average. In these estimates the rate of interest is an important factor.

Discounting and the expected rate of interest also play a role in international political deliberations. For instance, for years on end the United States and Canada have discussed about the feasibility of a hydroelectric power station in the Passamaquoddy Bay on the border of both countries.<sup>9</sup> The costs of investments of this would have been high, but the running costs low. Would the project be profitable? On the basis of the same data on costs and profits Canada concluded it would not be profitable and the United States concluded it would and wanted to start building.

*Interest leads to an uneconomic economy: meaningful investments do not take place if they do not yield the interest at least.*

How was this possible? It appeared that these two countries based their conclusion on different rates of interest. The United States presumed an average (real) rate of interest of 2,5%, while Canada assumed an interest of 4,125%. The fact that Canada expected a high rate of interest meant that they assumed that the money would yield more when it was invested elsewhere. Because of this the high initial costs of the project weighed heavily in the deliberations. The hydroelectric power station would never yield enough to pay back the costs of installation *and* the expected profit that the investment money would have yielded elsewhere. Oppositely, the lower rate of interest the United States presumed the project would be profitable.

<sup>9</sup> Environment and Natural Resource Economics, T.H. Tietenberg, Harper Collins College Publishers 1996.

## 1.4 How a bargain becomes expensive

What is getting clear step by step is how large the role is that money plays in the choices we make. A money system that is based on interest often leads to choices that we do not like to make. Let us give another example, closer to home.

Suppose you are going to build a house. Now you can choose for a durable house that will last long, or a cheap house that lasts much less long. It is not difficult to see the advantages of the durable house. It is better for the environment, for a longer life span means you need to build less houses, use less energy and building materials, produce less demolition rubbish etcetera. It also means less trouble of moving away and having to (let) build a new house, insulate it and so on. And when a house has a longer life span it is also worthwhile to do something extra on comfort, insulate etc. So there are only advantages. Your house will become twice as expensive, but will you notice it in your yearly costs? Of course not, for you can spread the writing-off over a much longer term and so the durable house will even become cheap in the end. All these are reasons to choose the durable house.

Now, some math for a moment. Let us assume that the cheap house will last 33 years and the building costs are \$200,000. So you spend (200,000 divided by 33:) \$6,060 a year on the writing-off.

The durable house is twice as expensive (\$400,000), but it will last a hundred years. So you and your descendants will only pay \$4,000 each year. For two thousand guilders a year less you will live in a house that is not only more comfortable, but will cost less on energy. Your choice is beyond question: you choose durability.

But if you go to a bank with this sum in mind, you may have a rude awakening. For the bank will ask interest, and this makes all the difference to the results. For if we suppose the interest is 10%, then the durable house will cost not only \$4,000 on writing-off, but in the first year another \$40,000 on interest is added to this: 10% of \$400,000. Your costs of living will then be \$44,000.

The other house, that first was cheap but later on appeared to be expensive, now appears to be cheap after all. It is true, it will cost \$6,060 on writing-off, but in the first year only \$20,000 on interest. So the total costs in the first year are only \$26,060.

It appears that interest makes most of the economic choices unpayable. Even at an interest of 5% the 'cheap' house appears to be \$8,000 a year more profitable.

Fig 1.4 The example of the houses shows that interest makes that the financial and the economic optimum oppose each other.

	<b>Quality house</b>	<b>jerry-built house</b>
Costs without interest (\$) years	200.000 in 100 years 2.000 per year	100.000 in 30 3.333 per year
Costs with interest (\$)	2.000 (writing-off)+ 20.000 (interest) 22.000 per year	3.333 (writing-off)+ 10.000 (interest) 13.333 per year

All these examples show that interest forces to shorter writing-off terms. Because of the interest it is financially more attractive to build a bad house three times in a century than a good house once a century. We have to put up with the extra waste of energy and raw materials.

Economic science is about using the scarce means efficiently. So the most 'economical' choice is a choice for quality and durability. That is always the one for the lowest writing-off amount. But the interest makes that this *economical favorable* choice is different from the *financially most favorable* one. And in practice the financial most favorable choice is made. *This way the kind of money we have determines the face of tomorrow's world.* So we must look for changes in the money system because of which the financial and the economical most favorable choices will be the same again.

### 1.5 the disrupting effect of interest

Now that we have discussed the interest aspect of the money system, it is right to go back into history.

Some centuries before Christ, Greece was threatened by a famine. Because of high interest obligations, farmers deeper and deeper in debt over the course of years. In the end they became slaves to redeem the debts. Because of this agricultural production collapsed.

In this period Solon came to power. Solon turned against interest. He forbade bondage as a way of redeeming one's debt and to decrease the existing debts he devaluated the coin. Since that time interest had a negative reputation in the Greek tradition. In Roman times this tradition had only established itself in the East Roman empire that was oriented on Greece. To the West Roman empire, the same thing happened as to the Greeks before Solon.<sup>10</sup>

<sup>10</sup> A History of Money: from ancient times to the present day, Glyn Davies, University of Wales Press, Cardiff, 1994.

A few centuries after Christ the debts of the poor were so large that the empire was facing collapse. In Western Europe the “dark” Middle Ages followed. It was possible that the Byzantine emperors *did* understand the dangers of interest and this was the cause that their empire stayed in existence when Rome had already fallen into chaos.

But we do not have to go this far back to see the disrupting working of interest. In the thirties large parts of Oklahoma, Texas and Kansas were transformed into deserts. This erosion was caused by monocultures of grain, by excessive use of chemical fertilizers, by thoughtless deforestation and the plowing of too much grassland. This so-called *Dust Bowl Disaster*, the disaster of silting up, was mainly caused by the use of borrowed money: to raise the interest, the farmers *had to* use predatory cultivation on their grounds<sup>11</sup>. Even now we can see countless examples of this. Look for instance at the impoverishment of the countrymen in the southern countries. As a consequence of predatory cultivation much soil that is suitable for agriculture has washed away.

In the Netherlands the pressure of the interest burden forces many farmers to manage their farms in ways that are hostile to nature and the environment. In all sort of ways the interest-bearing money forces undesired choices and developments. That brings us to an interesting conclusion: if the interest-bearing money is a part of the problem, can't an alternative for this be a part of the solution?

*An example of the disrupting working of interest: interest payments have indebted the peasant class innumerable times in history, until no viable peasant class was left over.*

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<sup>11</sup> Ecologie voor beginners, S. Croall and W. Rankin, Amsterdam, 1983.

## Chapter 2

### The money system and growth

*Anyone who believes exponential growth can continue in a finite world is either a madman or an economist. (Economist Kenneth Boulding.)*

The money system makes many people ever richer. If we may walk on stilts through the mounds of this specialist economic literature: this growing wealth leads to rising consumption and rising production. In short: to a growing economy. What does this growing economy mean for us?

#### 2.1 What does Inefficiency look like?

In the next chapter we concluded that the present money system brings about inefficiencies in the economy. At the same time from all sides we are served up with an image of a smoothly running economy that produces more every year. How can that be consistent with each other?

For example

Suppose, to see a performance better the people in the first row of a theatre stand up. That gives them a better view indeed, but at the same time they take away the view of those behind them. To see precisely as much as before they, too, must stand. The people behind them too, and everyone stands in the end. Everyone has, as it were, grown, but only the people on the second row benefit from this.

In 'The Growth Illusion'<sup>1</sup> Richard Douthwaite shows that this thought-out example is not mere fiction and that in reality, too, the growing possibilities of individuals can hamper the profit for the community in the long run.

For instance, one person can certainly go to his work faster by buying a car. But if almost everyone goes to his work by car, traffic jams will come about and as a consequence of these longer travel times. In the mean time public transport has got worse, so that you will go slower to your place of destination than if you did not go with a car. Meanwhile cars in the streets make the cities less livable, as a consequence of which ever more people are going to live outside the cities, ever more people need to travel and the traffic jams are ever growing. We can find the rise in sales of cars and gas, the construction of dormitory cities and new highways in the statistics as economic growth, but it has hardly given us real profit.

#### 2.2 Much Growth but little Improvement.

Apparently, economic growth is not beatific. The volume of the economy has doubled the past twenty-five years. But have we become happier because of this? Have our conditions of life improved? Do we live more comfortable and more pleasant?

Or is it, as the old Fool of Worteghem said in Louis Paul Boon's novel *Jan de Lichte*: "All kind of things are improving, but nothing gets better"

To measure economy's state the Gross National Product (GNP) is used. This GNP increases in every wealthy nation year after year. But what does this growth mean? In any case nature does not improve. Also other matters that we consider important have sooner increased than decreased: the feeling of safety, the care for the needy. And many provisions that used to be very common are called unpayable at present. Accordingly the GNP does not measure welfare, but only *economic production*. And everything is included in the calculation: the pollution and the cleaning, the consumption of raw materials, the recovery of damage by accidents etc. Accordingly, as a measure for welfare the GNP is of little value. But, of course, many people *did* become wealthier. The garbage cans have never been so full.

*Increasing possibilities of individuals limit the profit for the community in the long run. You can, of course, buy a car to save time, but if everyone does this, you will soon end up in a traffic jam.*

In various places people are looking for a better gauge that can give an answer to the question if we are better off. This way the Norwegian Dag Hareide drew up a 'livability index'.<sup>12</sup> To do so he used a few indicators that he deduced from Norwegian statistics. He discovered that a triplication of the economic production was coupled with a proportional increase of, among other things, the number of suicides, the number of homicides, the number of violent offenses, the abuse of alcohol and drug addiction. He concluded from this that evidently *on an average* we as a whole are not doing better. This conclusion is confirmed by the calculations of the Index for Sustainable Economic Welfare (ISEW).

The ISEW was developed in the USA and is for 60% equal to the GNP. This 60% is the part of the private consumption. But in the ISEW a correction is applied for the distribution of incomes: large differences in income make the ISEW lower. Moreover, among other things housekeeping, collective goods and services are added.

Subtracted from this are all kinds of social costs like accidents, environmental costs and long-term costs like land destruction, use of raw materials and climatic change. Until the beginning of the seventies the ISEW appeared to follow roughly the GNP. Growth of the GNP rose simultaneously with the growth of welfare. In the course of the seventies this changed: when the GNP rose, the ISEW figure appeared to fall. Extra production appeared to give no more advantages to us. This has been established for nearly all rich countries.

Research by Herman Daly and John Cobb (1989) shows that since 1970 in the United States the wealth per head of the population has even decreased.<sup>13</sup>

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<sup>12</sup> Det Gode Norge, Dag Hareide, Gyldendal Norsk Forlag, Oslo, 1991.

<sup>13</sup> Environment and Natural Resource Economics, T.H. Tietenberg, Harper Collins College Publishers, 1996.

Ever more money may be circulating at the stock exchanges, but it appears to say ever less about real life.

Until the seventies economic growth had yielded us real profit. But since that time we are not making any progress anymore in spite of the growth: the economic growth stands ever more for the *growth of inefficiency*.

### **2.3 After the Acid Rain, the Flood?**

One of the consequences of growing consumption and growing production is the emission of ever increasing amounts of greenhouse gases. That leads to ever higher concentrations of those gases in the atmosphere with as a consequence the *greenhouse effect*. This hothouse effect is not only a large, but also a remarkable problem. A substance that is completely harmless to human beings in the direct sense is the cause of this: carbon dioxide (CO<sub>2</sub>). CO<sub>2</sub> is not poisonous and not even a bit unhealthy. Every living being produces CO<sub>2</sub> and it is indispensable for life on earth. But the enormous quantities that are emitted by the combustion of fossil fuel are forming an ever thicker blanket around the earth, and that blanket retains the warmth.

With the restraint that is common to their profession scientists warn that the climate on earth could be dramatically changing as a consequence of this. The expectation is that among other things the sea level will rise. The greenhouse threatens to mean literally the Flood to millions of inhabitants of lower situated areas. Besides this these climatic changes threaten to disrupt many ecosystems with uncertain consequences for the agricultural production, the spread of diseases, the biodiversity etc.

<p><i>Modern environmental problems are mainly caused by the growing volume of production.</i></p>
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The greenhouse effect is exemplary for the present environmental problems. They are mainly caused by the continuously increased volume of production. Year after year the production has increased and the many little bits that were expelled and at first were innocent started to form a large problem when added to each other.

The quantity of CO<sub>2</sub> that is emitted by one power station based on coal does not cause any major problems. But every day such a power station is, as it were, added and the emission of CO<sub>2</sub> is ever increasing. Even when the pollution is cleaned CO<sub>2</sub> is released. The emissions of CO<sub>2</sub> now has become so large the world climate has become overloaded.

The greenhouse effect is temporarily the last link in a chain of environmental problems that are the consequence of the growth of the energy consumption and with this indirectly of the production growth, or: *the economic growth*. As early as in the sixties the expulsion of polluting matter increased to such a degree that the pollution in the direct surroundings became unacceptable. By building high chimneys

we knew how to 'solve' this problem. The dirt was dispersed and ended up as acid rain in Scandinavia. In the mean time we receive acid rain from places where they have applied the same solution.

In the mean time there are desulpherization installations applied against the acid rain, but the production kept increasing and this has lead to other problems. Now we are left with the greenhouse effect. Ever again it is the ever increasing production, so the economic growth that has brought us into problems.

## 2.4 Exponential Growth

Growth is no coincidental development, but has everything to do with the current money system. The following absurdities give an idea in what kind of wriggling it forces us.

Nearly all the money has been brought into circulation through loans at *an interest*. New loans from the bank are just not for free. And all those loans must be paid back, including the interest. So there must always be paid back more than there has been borrowed. There is only one way in which this is possible: somewhere someone contracts a new loan and again money is brought into circulation at interest, of course. This way holes are filled with holes and more money is brought into circulation. Ever more is ending up at the rich. Especially the last years we see capital growing ever faster. The moment comes in sight that the returns that all these capitals are making in a year, is as large as the total world production. You will understand that we get stuck then: from this world production people must eat, live, move on and a lot more. Yet capital owners claim ever higher profits from their capital. They can only be provided if the production is ever increasing.

<p><i>The economy grows exponentially: the growth is going on ever faster. What is added in the absolute sense, is consequently more every year.</i></p>
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An anecdote shows us what this growth looks like:

Once upon a time there was a shah in Persia who was so delighted about the invention of the chess game that he promised to fulfill every wish of the inventor. Pointing at the chessboard the inventor said: "Give me one grain of corn on the first square and then on each of the next squares double the amount". The shah thought this was a very modest request. One grain of corn on the first square, two on the second, four on the third and so on up to square 64: that could not be much all together. Happy with this modesty the shah immediately agreed to this. Later on he discovered the country's total production of grain was by far not enough to enable him to keep his promise. An enthusiastic cipherer has calculated how much grain would be needed in the last square only. It appeared to be 440 times the earth's total production of grain!

This is an example of exponential growth. Exponential growth is an accelerating growth: not only is something added to it, no, *what is added is more every time*. The

increase itself is getting bigger and bigger. The consequence is that the amount doubles in a fixed period of time. In the beginning it seems to be just a little, but in the end the growth will be uncontrollable. If you plot this growth against time, you will get a rising line that will get ever steeper (*see illustration 2.1*).

The table below gives the output of the Dutch economy, expressed in Gross National Product (GNP). This GNP is the sum of all economic productivity, say of everything in a country that is made and done.

*Gross National Product of the Netherlands (for market prices, in millions of guilders)*  
Source: *vijfennegentig jaren statistiek in tijdreeksen 1899 - 1994*, CBS.

1930	6 248
1946	10 677
1950	18 601
1960	41 840
1970	121 180
1980	336 740
1990	516 270

What happened? Between 1930 and 1990 production, measured in guilders, has grown not less than eighty-fold. And you can be sure that this growth consists not only of the increase in visits to the cinema, the growing number of tea-circles and the explosive growth of the therapeutic branch. No, a large part of this growth consists of 'heavy' economic activities, in the branches that use most of the energy and raw materials and cause most of the pollution.<sup>14</sup>

If we plot these figures in a graph (*illustration 2.2*) then we see exactly such a rising curve as we saw in the exponential growth of *illustration 2.1*.

Roughly speaking the economy appears to be growing exponentially. Even if the growth is constant, measured in percentages, what is added in the absolute sense, is more every year. For one percent becomes ever more when you are growing. A growth of 3% in 1950 was just a trifle compared to a growth of 3% in 1990. And that does not mean a thing compared to what we can expect when we grow 3% after 2000. (See *figure 2.3*). Yet year after year governments aim at an economic growth of approximately 3%.

That comes as no surprise to us anymore, now that we know that money is growing exponentially. The capitals and the banks that bring the money into circulation claim profit and interest and the economy has to adapt itself to this.

## **2.5 Technical development: solution or delay?**

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<sup>14</sup> See among others: Roefie Hueting in *Drie hardnekkige mythen in het milieudebat*, ESB, 23 november 1994.

Will every increase in production be coupled with a proportional extra burden on the environment? Of course not, for we are becoming more clever and by all kinds of new inventions we can limit the energy consumption and pollution considerably. But is that enough?

The *Milieubalans 1996 (Report on the Environment 1996)* of the RIVM (the Dutch State Institute for the Environment and National Health) shows us it isn't. It is true, the last ten or fifteen years the expulsion of a large number of materials has been considerably reduced (the RIVM speaks of *de-coupling*) in spite of the economic growth, but the last two years the reduction has been decreased or even come to a stand-still. Moreover the de-coupling does not apply for a number of important environmental indicators like the expulsion of CO<sub>2</sub>, mobility and use of space.<sup>15</sup> The RIVM attributes the break in the de-coupling to the 'drying up' of the effects of the current policy and the present technical possibilities in combination with the attractive economic growth in the past two years. Concerning this the next article in *Nieuwsblad van het Noorden* is illustrative:

"The catalysator, the introduction of lead-free gas, energy-saving bulbs bear their fruits. The effects of these technical improvements are, however, amply nullified by the increased consumption, that is only partly the consequence of the population growth. The modern lifestyle, with more one-person households, more leisure time, more intensive use of the car and more electric appliances are contributing considerably towards this. The use of electricity rose 6 percent."<sup>16</sup>

Technically man can do a lot of things and of course technical improvement give us air. But trust in technology alone as a solution for problems that causes the growth, leads to a chronic environmental disorder: ever again the technical progress is outdated by further growth and the problems return in a heightened extent. This pattern can be indicated by the so-called *N-curve (figure 2.6)*. This shows how when an improved technology is introduced, the pollution decreases ever again. But when subsequently the production growth continues, this effect is nullified and the pollution increases. After some time the pollution is just as large as when the improvement was introduced. Further introduction is a lot more difficult now. Mostly a much more expensive technology is needed to reduce the pollution per unit. Moreover new problems will arise when the quantities are so large.

*Improvements by technical renewals are time and again rendered out of date by further growth.*

Other matters also play a role in this. When we need a certain raw material less as a consequence of technical developments, its price will fall and because of this the consumption will even increase. Eventually in many cases even more of this raw material will be used than before. This way the total use of coal by the iron industry was relatively low at the beginning of the 19th century. The high coal consumption of

<sup>15</sup> Milieubalans 1996, RIVM, 1996.

<sup>16</sup> Techniek kan niet op tegen groei consumptie, Nieuwsblad van het Noorden, 14th September 1996.

the then relatively inefficient engines made the application of iron unprofitable in most cases. However, when technical improvements led to more efficient engines and to a reduction of the coal consumption per ton produced iron to less than one third of the earlier consumption, at once many more applications of iron became profitable. Between 1830 and 1863 in Scotland the total coal consumption increased with a factor ten because of this.<sup>17</sup>

So the danger exists that soon we shall efficiently produce twenty times as much and so we shall be twice as far from home and even be proud of it.

## 2.6 The face of growth

What does economic growth look like? Where we can see it back, except in an increase of the expulsion of souring materials, an increase in greenhouse gases in the atmosphere and more of such parameters that are published by the State Institute for National Health and the Environment (RIVM) with unremitting zeal? We mentioned the greenhouse effect, but we are not reduced to the last extremity by far. What does economic growth in fact stand for?

Economic growth stands for the ever increasing asphaltting and building of the Netherlands, for the ever increasing, ever progressing sacrifice of 'useless' space to the expanding production machinery. Economic growth stands for the increasing time and space that is occupied by the economy and goes at the expense of livability, of rest and silence and even of human well-being. Some examples.

Islands in the sea are represented as the solution of our spatial problem, as an alternative arrangement for *Schiphol* airport or as an extra space for business activity.

As if the view on the horizon is worth nothing, and the breakers rolling on the beach, the rustling of the sea and the shouting of seagulls that is blown away by the wind. With great resolution is worked up to the construction of a second and soon may be even a third Meuse Plain, go ahead, there is no end to it. While the value of the nature in the surrounding dune area is discounted as elitist and not relevant, for the common man does not know the difference between the marsh helleborine and the stinging nettle.

Also telling is the chilly aloofness with which the Betuwe railroad, the high speed railroad, extensions of *Schiphol* airport and *Beek* airport and so on, are continued. And furthermore how local residents are reduced to abstract ciphers in a analysis of the costs and the benefits, while in the mean time their livability, their welfare and health are thrown away and their right to speak is refused, because, as we all can understand, it cannot be helped that the general interest comes before the individual interest.

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<sup>17</sup> The Coal Question, W. Jevons, 1965.

*We cannot only see growth back in the statistics but also in the changes in our environment.*

And this goes on like that. Highways are constructed across backyards and across vulnerable natural areas. Everywhere prestigious office buildings as decors of the unlivable chilliness that stays behind between the mirroring glass, and yacht basins, hotels, restaurants and shopping malls are constructed in almost the last little stretches of nature. "On the most beautiful spots of the Netherlands" the somethingth bungalow park or holiday park is being built and in so doing the last stretches of rest and emptiness are bartered away. And whole sceneries are dug away to supply sand, gravel or marrow to satisfy the demand for concrete. Everywhere money must be earned and in all places where the big money is introduced nature and scenery make way. And so every square meter must have a destination, nothing can just be and nature can only be nature where it is called nature in the construction plan and is surrounded by a fence. It is the price we must pay for our increasing wealth. The country must be shoveled, we must earn money, and if that goes at the expense of nature, of rest and space, of agricultural land and even of residential areas, then unfortunately it can hardly be helped.

## **2.7 The growth problem in a global perspective**

You cannot talk about economic growth without looking to growth on a global scale. For even if we could grow without laying a heavier burden on nature and the environment by making a more efficient use of energy, should we of all people, the rich nations in the North, claim this space for growth for ourselves? We, who for decades have already decades of economic and wealth growth behind us and have in so doing expelled millions of tons of CO<sub>2</sub> and destroyed nature and environment everywhere in the World? We, who have already reached an unprecedented high level of wealth in comparison to the rest of the World? Wouldn't it be more appropriate if we use the technical developments to confiscate a smaller part of the earthly sources?

For suppose that people in poor countries would reach the same level of wealth as we. Suppose that they would match our level of consumption<sup>18</sup>. That would lead to ecological catastrophes. If for instance the Chinese were on average to drive as many cars as the Dutch, then the CO<sub>2</sub> emission by cars in China would be equal to the expulsion by the total West European industry.

But who would deny them that right? We can only expect modesty from the poor countries if we can be modest ourselves. And to make an end to our economic

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<sup>18</sup> 'Fortunately' we are far from that situation. In *Greep op Groei* Theo Potma shows what until now poor countries have harvested from the stormy growth we have sown. It will be a surprise to nobody that it appears that a quarter of the world population uses about three-quarters of the available energy. And this proportion may well be considered to be exemplary for all the consumption of raw materials *and* for the level of consumption.

Theo Potma, *Welvaart, milieu en vrede in mondiaal perspectief*. From: *Greep op Groei*, ed. Frank Biesboer, Strohalp, Utrecht, 1993.

growth to give them some space is the least thing we should do. That means that we must dam the driving forces behind growth.

One of the driving forces behind growth is money, which brings interests and profits together and in so doing leads to ever more enrichment of the rich, to ever higher production and consumption in the rich countries and to an ever more extensive economy. What possibilities do money and interest offer to change the switches and turn in another road?

*If everyone on earth reached the same level of wealth that we have now, the ecological catastrophe would be immense.*

## Chapter 3

### Poverty and the money system

The reverse side of our wealth is worldwide poverty. And perhaps this poverty is the most difficult of all problems the world is confronted with. One billion people live under the poverty border, millions of people suffer from hunger and yearly hundreds of thousands of children die from malnutrition. I can hear you think: "I already know this!" Yes, we all know, but that does not make an end to this injustice.

If we want to do something about the terrible inequality in the world, if need be against all odds, then we need to know where it comes from. Has poverty something to do with the money economy? With the current money system? And does this perspective offer starting-points for improvement?

#### 3.1 Poverty because of the money economy

The same money that creates the great wealth, creates equally great poverty at the same time. In many countries that we call 'underdeveloped', people in the countryside were very well able to provide each other of the things they needed. There was a moneyless form of wealth. People had enough food to eat, worked for and with each other and there often was a great social and cultural welfare. Where a road has been constructed, with Western money for instance, where we brought 'real wealth', poverty has stricken. Such a road often runs as a ribbon of impoverishment through the country. For there is money, and so there is also the necessity of money, and the lack of money to organize co-operation between people. Before everything else money is needed now, and nothing happens without money. The old organization has been ousted, but the new one, the Western money, does not work because it is insufficiently available. Consequently, to be able to co-operate the necessity for borrowing money arises. If subsequently interest is being paid on this, much of the money flows away from the community and the poverty grows.

Why does a lack of money make people poor? How does it come about that people have a lack of houses, while together they are able to build these houses and the materials to build them are available? Why there is hunger, while there is enough space left for a fruit tree or a cornfield? Why don't people work for each other and don't they provide each other with goods and services?

Imagine the following simplified case. There is a baker, a smith, a builder of oxen cars and a horse breeder. All four are poor. The baker would like to bake bread for the smith, the oxen car builder and the horse breeder. And all three want to buy bread from him. And the baker wants an oxen car from the oxen car builder and a horse from the horse breeder, and the horse breeder wants horseshoes from the smith for his horses and the oxen car builder wants wheels for his cars.

And so on. Only: none of them has any money. So the baker bakes no bread for the smith, the oxen car builder and the horse breeder etc. There is no exchange medium, so no communication medium that couples these transactions that are

wanted by everyone. Because of this they are unemployed and they will get poorer and poorer though the capacities and the need for those capacities are available.

This situation occurs frequently in the poor countries in the South. Now and then there is money, but it has something 'better' to do than to circulate between the smith, the horse breeder, the baker and the oxen car builder. Elsewhere this money can earn a lot more and almost all extra value that is produced by those poor countries flows away to rich countries. What does stay behind in the poor countries concentrates itself with the rich and they spend it mostly on capital-intensive products from the North (CD players, computers and cars) and hardly on locally produced goods.

The consequence is that most of the money that is earned in the southern countries, disappears from the local circulation and is not used any more in the community as an exchange medium. If the large landowner buys a car instead of a locally produced oxen car, the oxen car builder becomes unemployed, the horse breeder and the smith lose their job, the baker that baked for them misses his customers and so on. A chain of activities becomes impossible. Of course there are enough people that could make a sensible use of an oxen car, but only the rich has the money for it, and he would rather buy a Mercedes.

*If the global money system penetrates the local economy, this leads to poverty, because people without money are no longer able to trade with each other.*

The same happens in the poor neighbourhoods of our large cities. There, too, the largest part of the earned money disappears from the quarters in no time. The local shopkeeper has been pushed away by the shop chain, neighborly help by the specialist from outside the quarter, the vicar or the priest by the lawyer, social control by the police and the repairman by a throwaway part. Ever again a service from outside the neighbourhood is bought, and the money that an inhabitant of such a quarter earns is lost for the mutual trade in that quarter. Here, too, the inhabitants must watch inactively how the quarter becomes pauperized and the youngsters are not challenged with nice jobs, because the means of exchange disappears from the community. Even the unemployed youngsters spend it on motor bikes and compact discs from outside the area.

This is an important key to understanding poverty: for a large part it is a question of social disorganization. Where the money functions well, specialization and wealth arise. Where there is no money, the organization does not function and poverty arises.

It is also a key that can help us to open up the new ways we are looking for.

### 3.2 Poverty by interest-bearing money

*In 1980 the total foreign debt of the developing countries amounted to 567 billion dollars. In the next 12 years these countries repaid 1662 billion dollars. In 1992 they had, however, not a credit of 1095 billion dollar, but a debt of 1410 billion dollar remained.<sup>19</sup>*

*These figures are amazing. What we call aid to the developing countries appears not to exist at all: poor countries pay much more to the rich North than they receive. This flow of money is mainly caused by interest. After all, interest is paid by those who lack money to those who have it left.*

The consequences are disastrous. All the money in poor countries is soaked up to pay the interest. Factories are closing down, local markets are collapsing and nothing is left for their own mutual trade. In some countries even the middle-income groups have been reduced to beggary. The Brazilian leader of the opposition Lula said it very strikingly: "Without wanting to be radical or to exaggerate, I must say the Third World War has begun already. A silent war, but not less ominous for that reason. Instead of soldiers children are dying, instead of millions of wounded people there are millions of unemployed, instead of bridges factories, schools, hospitals and whole economies are being destroyed.

*It is a war on the foreign debt and the main weapon in it is interest, a weapon that is more deadly than the atom bomb and more destructive than a laser beam.*

For a matter of fact we do not see this flow of money from poor to rich in the global debt problems only. In rich countries like the Netherlands we can see it again. Here this flow of money is somewhat compensated by a re-distribution through social benefits, subsidies and aid to the developing countries, but then the harm is already done. Rich is getting ever richer and poor ever poorer.

We are used to it that you pay interest if you borrow: that is just the price of money. Yet if we lend a packet of butter to our neighbors we do not ask them to pay us back with two of them later on. The towering burden of debts the poor countries are weighed down by consists for the largest part by precisely that second packet of butter. And of a third packet that they had to pay because they could not pay the second in time and for that reason had to borrow half a packet extra. The rich countries can only demand these second and third packets of butter, because it is a matter of unequal power relations. Economists say that interest is the price of the

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<sup>19</sup> De Natuur telt ook mee: naar een duurzaam nationaal inkomen, Wouter van Dieren (ed.), Het Spectrum, Utrecht, 1995.

Susan George mentions similar figures: between 1982 and 1990 the debt countries paid 1345 billion dollars on interest and redemptions. In spite of this their debt increased with 61% in the same period. The Debt Boomerang: how Third World debt harms us all, Susan George, Pluto Press, London, 1992.

scarce product money, but exactly this scarcity keeps the poor poor. And this scarcity is a political choice that is made by the rich countries.

Interest is paid by the poor to the rich and so makes the poor poorer and the rich richer.

Interest payment by southern countries:

1970: \$ 2,5 billion

1979: \$25,7 billion

1981: \$51 billion

1970 - 1982: \$239 billion

1980 -1992: \$711 billion

From: *De Natuur telt ook mee*, Wouter van Dieren (ed.), 1995

The situation seems hopeless, but at the same time it offers a perspective on improvements. For if we can do something about this money flow and so about interest, much will improve. Further on we shall see that there are alternatives, in which the money is not scarce and does not flow automatically from rich to poor.

The countries in debt did not know what they began when they borrowed the money. At that time interest was not that high. As a consequence of the enormous flood of dollars of the oil sheiks who became rich by the oil crisis, the banks were full to the brim in the course of the seventies. They were hawking loans. The interest was little more than the currency depreciation of the dollar and you could borrow money almost for free. Poor countries were beaten to death with cheap loans. When in 1980 Ronald Reagan became president he borrowed a lot of money for weapons. Because of this new demand for money combined with the tight money policy of the FED, the American National Bank, the interest rose. The extra expenses on Star Wars, too, boosted the economy. The profits rose above twenty percent and the rates of interest did not lag behind. Interests of around 20% were also charged on new loans that those developing countries had to incur to be able to pay their old debts. Because of this they came into serious difficulties.

An important cause of poverty is the interest-bearing character of money. Who is poor pays interest to who is rich. So interest makes the poor poorer and the rich richer.

### **3.3 Interest and the gap between poor and rich**

As a consequence of these interest payments the gap between poor and rich and its consequences can be seen back almost everywhere. This way *De Volkskrant* reported that Bill Gates is still the richest man on earth and that his fortune has grown with 40% to 18 billion dollars (but watch out Bill, the billionaires from the Far East are

drawing near!)<sup>20</sup>. What *De Volkskrant* did not report is that at the same time in cities such as Bombay people in the streets are dying in their own dirt. This happens there every day, that is not news. While in Africa and Asia children are still dying from hunger, the American magazine *Forbes* counted 447 billionaires in 1996. That is a lot more than the 388 billionaires in 1995. The magazines also made top 10 list of the richest people in the world. There weren't any Africans among them. But there were 6 Asians on the list, but it is likely that they will be quite different Asians than the one that live in the slums of Bombay or Seoul.

These are some loose facts. Just like the following:

Since 1967 in Africa the agricultural production per head of the population has decreased, since 1981 in South America. The World Bank reported that between 1979 and 1983 in nine African countries the life expectancy dropped and in 1984 in Zambia twice as many children died from malnutrition as in 1980. And in 1988 the President of the InterAmerican Development Bank observed that in that year the average income per head of the population in South America was 9% lower than in 1980.<sup>21</sup>

Of course there are also other signals. Thailand, South Korea, Taiwan and Singapore, for instance, report good results. Yet the prevailing image is that the differences between poor and rich in the world are becoming larger rather than smaller. From unsuspected side comes a confirmation of this image: the World Bank established in its yearly World Bank Atlas that in 1992 the inhabitants of the rich countries on an average have become richer, and those of the poor countries on an average have become poorer.<sup>22</sup>

Everyone knows the consequences from TV and from the paper and perhaps also from his own experience. In the shadow of shiny hotel towers people live in slums, devoid of the most elementary needs. And while immensely rich large landowners hide behind high walls and impenetrable fences, in countries such as Mexico and the Philippines, landless farmers live almost without any source of income in the margins of mankind.

Perhaps to many of us this is far from our own homes, but also in our country poverty is advancing. You will find beggars and slums not only in what a short time ago we called the Third World. In Europe, too, the differences are getting larger, in Europe, too, for a growing group of people life is getting more hopeless, and in Europe, too, tramps and beggars are a part of the 'normal' street life. And during the past few years in the United States the national income has grown, but at the same time the freely spendable income has decreased. That is to say that after reducing the fixed charges, people have left over ever less money to eat and drink, buy clothes etc.<sup>23</sup>

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<sup>20</sup> Gates blijft de rijkste maar de Aziaten zijn sterk in opmars, *De Volkskrant*, 24th July 1996

<sup>21</sup> Environment and Natural Resource Economics, T.H. Tietenberg, Harper Collins College Publishers, 1996

<sup>22</sup> Arme landen nog armer, Zwitsers weer de rijksten, *De Volkskrant*, 4th January 1994

<sup>23</sup> De achterkant van de banenmotor, *De Volkskrant*, 2nd December 1995

So the country is getting ever richer, the rich are getting richer, but the poorest half of population is getting poorer and in the ghettos hopelessness reigns. One out of ten poor people are in prison.

In the Netherlands and Belgium, too, this tendency can be noticed. With the argument that 'we' have no choice the social system has been stripped down. Because of this the poorest twenty percent of the population saw their a spendable income decreasing with 10% between 1983 and 1991, while the richest twenty percent got 12,5% more to spend in the same period.<sup>24</sup> The number of millionaires in the Netherlands, in 1990 over 50,000, doubled in ten years, as the average salaries of leading entrepreneurs did.

Managers of firms like Shell, DSM, Hoogovens and KLM earn one to 2,5 million guilders yearly and the average manager, too, has earned a hundred thousand guilders more since the end of the eighties. Just the amount they earn more yearly, is almost ten times as much as the amount a Dutch household with an income that belongs to the lowest twenty percent must live on.<sup>25</sup>

### 3.4 More export, less income

Of course many causes can be mentioned for this division. In this way southern countries get ever less for their raw materials, while they need ever more money for the finished articles they are buying. Jash Tandon and Wouter van Eck write in *De Volkskrant*<sup>26</sup>: "The export income (of most African countries) have further decreased the past few years. However, this did not happen because there would have been less exported, for the export was *larger than ever*. But less than ever was being paid for the products. (...) This way in a starving Sudan record yields of cotton for the export were realized, but unfortunately the price on the world market was cut in half."

Wouter van Dieren, member of the Club of Rome, gives some hard figures.<sup>27</sup> In 1989 alone African countries south of the Sahara suffered a loss of income of 16 billion dollars as a consequence of loss in value of their products!

What this means in practice, you can see back for instance, in the countryside of poor regions. To compensate the decreasing proceeds, on ever more agricultural land crops are grown for the export. Because of this there is ever less land available for food crops for the local market. In addition, together with the export crops like the soya for our cattle food, the minerals are disappearing from the soil. The soil becomes infertile and is washed away, so that the food production, too, will be threatened in the future.

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<sup>24</sup> De armsten steeds armer, de rijken rijker, Trouw, 26th August 1993

<sup>25</sup> *De schuld van 't kapitaal*, HP/De Tijd, 24th September 1993]

<sup>26</sup> 'IMF maakt van Afrika een eeuwige verliezer', Jash Tandon and Wouter van Eck, De Volkskrant 2 december 1995

<sup>27</sup> *De natuur telt ook mee: naar een duurzaam nationaal inkomen*, van Wouter van Dieren (red.), Het Spectrum, Utrecht, 1995

But why does for nearly all countries export income come before their own food? Interest payments on debts play an underestimated role in this. Poor countries are losing enormous amounts on this and to be able to pay ever more must be produced. In spite of this most countries do not succeed in paying their debt on time and for that reason they must contract new loans against at interests that are imposed on them. And the International Monetary Fund (IMF) gives only new loans when there is 'trust' that the country concerned will earn enough to be able to pay those loans. And this country will only get this trust if it switches to production for the export.

*Debts and interest payments on those debts compel poor countries to production for the world market and worsen the population's problems.*

The consequences of such a policy are disastrous. This way Zimbabwe had known a satisfying food production for years. However, at the beginning of the nineties the IMF dictated the cultivation of tobacco. In doing so they could earn foreign currencies. It can be taken for granted that this was done at the cost of the cultivation of food crops. When after a dry period in 1993 the yields decreased further, the poor population groups in Zimbabwe had to cope with hunger and malnutrition in a way they had never known before.<sup>28</sup>

In addition to this the deliveries of raw materials by the poor countries lead to more raw materials on the world market. And more raw materials on the world market lead to lower prices. Added to their already worse negotiation position this leads to poor countries being forced often to sell the raw materials for a price that is even lower than the costs, certainly if the environmental harm is also counted. But the proceeds in dollars can be used *now*, while much of the costs are for later.

It all seems very hopeless. Perhaps does the money system offer a starting-point for realizing improvement step by step?

The memory of the horrible genocide in Rwanda is still fresh to us. In a hardly comprehensible orgy of violence an estimated half a million of people died. Of course you cannot ascribe such an event to one fact just like that, but is it a coincidence that at the beginning of the nineties exactly Rwanda saw how its export income shriveled with 60 percent purely because of dropping prices? The thought that this humanitarian catastrophe would also be caused by the IMF's policy is unbearable.

But it was the IMF that had urgently requested Rwanda to use the best agricultural land for the export.<sup>29</sup>

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<sup>28</sup> IMF maakt van Afrika een eeuwige verliezer, Jash Tandon and Wouter van Eck, De Volkskrant , 2nd December, 1995.

<sup>29</sup> IMF maakt van Afrika een eeuwige verliezer, Jash Tandon and Wouter van Eck, De Volkskrant , 2nd December, 1995.

### 3.5 The hidden interest recovery through prices

Most people know very well that people and countries pay interest. It is less known that people and countries without debts pay interest as well. That happens invisibly and it is hidden in the daily trade. We find back interest costs in almost everything we pay for. The consequence is a hidden interest flow that strengthens the effects of interest as we have seen until now.

Everyone knows that when you buy a house with a mortgage, you have to pay three times easily, one time to redeem your debts and twice to provide the bank with interest. But who rents a house also pays the interest costs of course, for the house owner calculates his costs into the rent. In the Netherlands one-fifth of the taxes also goes as an interest payment to the holder of state bonds. In Belgium this is even a lot more. Besides this we all pay interest if we buy articles in the shops. For most companies work with money that is borrowed from others and they must pay interest on this.

Moneylenders and banks often have invested huge amounts in products or production means and they expect to gain at least interest. The companies will have to yield this interest. For that reason they calculate the interest costs in the prices of their products. Probably we are not conscious of this at all, but if we buy a product, we do not only pay the costs of the raw materials, the writing-off of the production means and the wages, but also the interest costs remitted by the manufacturer.

And it does not remain with this: we also pay the interests costs of the transporter, the wholesale trade and the shopkeeper. This way a considerable portion of interest is hidden in the prices of each product. And the more the production is capital-intensive, the more this portion is growing. That can amount to half the price! This way there came about an unnoticed flow of money of everyone that buys something to the moneylender of the companies. It is remarkable how this phenomenon that effects all sections of society, is overlooked by many.

How these invisible interest payments have increased appears, if we look at the waste disposal. At the time that waste was still dumped, a municipality only paid interest on the investment in the garbage car and the purchase of the ground on which the waste was dumped. The rest of the costs consisted of wages and of the price of the garbage car. At that time the share of interest in the costs was mostly not more than one-eighth. By now there are large waste separation installations and expensive combustion ovens and the costs of interest in waste disposal have risen above 40%.

Margrit Kennedy<sup>30</sup> calculated that in Germany 38% of the price of the drinking water consisted of the costs of interest, and 47% of the costs of the disposal. It would not be different in the Netherlands and Belgium.

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<sup>30</sup> Interest and Inflation Free Money, How to create an exchange medium that works for everybody, Margrit Kennedy, Permakultur Institut, Steyerberg, 1989.

The conclusion is clear: not only those who are in debts pay interest. Everyone who buys bread, pays taxes or hires a house, pays unwillingly the flow of interest from poor to rich. Even those who receive a nice bit of interest from his savings account or have a nice pension, pay altogether mostly more on interest than they receive and so they are better off without interest. Only the richest ten percent of the people receive more interest than they pay.

All these costs of interest form a flow of money from the poor to the rich, of which we are hardly aware. But suppose the taxation office asked you to bring for the ease of it a quarter of your taxation money directly to the millionaires in your place of residence. Or that the shopkeeper asked you to pay a third of your bill there. Then nobody would still accept this.

*Every fifth euro that we pay is an interest euro. EVERYONE contributes towards the interest flow from poor to rich.*

### **3.6 The hidden interest costs in the world trade**

What counts for the local trade, counts of course, for the world trade. Here, too, hidden payments of interest through prices play a role, a very important role. Poor countries do not have much more to sell than their labor and their raw materials. So rich countries pay the poor countries not much more than the labor costs of quarrying or cultivation, and the profits stick with the large landowners and intermediary traders. Interest payments are not included in this.

On the other hand there are the imports of capital intensive finished products from the rich countries. In the course of time these countries have built up an impressive machine park in which much money has been invested at an interest. Poor countries that buy those products from the rich North, too, pay that interest.

The consequence is that this way enormous payments of interest flow from the poor to the rich countries, in addition to the payments of interest on debts. For poor countries this is a constant, heavy loss that makes it harder for them to catch up on their economic backlog. Almost always their companies are archaic. The only solution is to tighten the belt even more in order to keep some money left for investments that are competitive. Even then is the question whether or not this money will be invested in their own country.

## Chapter 4

### Co-operative saving: saving without interest

We can now see an image arising of a global economy that leads to impoverishment of the poor and destruction of nature and the environment. Fortunately a completely different story can be told: the story of people worldwide who are looking for possibilities to escape from that economic and financial stranglehold, from people that are closely co-operating at the community level that are looking after their own interests and keep the money in their own control. Concrete examples show us that managing money differently can be an excellent starting-point for our striving for fundamental changes.

#### 4.1 The story of Minati from Bangladesh

Minati lives in a cabin with a roof of zinc. You can't get to her house by public transport. Sometimes cars drawn by buffaloes plod on the dyke to her cabin, but everyone else goes by foot. During the months that floods are providing the farmland with a fertile layer of silt, transportation is nearly impossible. Then the dyke, too, is flooded knee-high by water. Then Minati lives on an island, for her cabin has been built on a piece of raised land.

Minati is a basket braider. Before the flood she takes care that there is enough bamboo at home to be able to continue working during the flood. The basket cannot be taken to the market before the water level has fallen. It is always difficult to bridge the flooding period. Because an investment beforehand is needed to buy bamboo and Minati does not have the money for this. Traditional loan sharks 'help' people like Minati with a loan during this period. Not unusual rates of 50 to 100% interest has to be paid on these loans. At least if she pays back quickly enough...

This had happened to Minati, too, until 1987. Since that time she and a number of her companions in misfortune have united themselves in a collective that saves together.

*By gathering together small portions of saving money time and again also the poorest are gradually gaining their independence from the usurers.*

In fact they can hardly miss anything, but they are saving penny by penny and this way they are able to keep one of them out of the hands of the loan sharks. And this counts, for because of this that one is able to pay back the total borrowed amount in one year. Money that otherwise would have gone to the loan shark now comes back to the collective. This way slowly but surely they have won ground. Now Minati has saved about six dollars on her own name and four and half dollars on the account of the collective saving fund. She has borrowed several times. She has been able to pay back the first 25 dollars after the flood yet. Later on, when she could buy a cheap lot of bamboo, she has even borrowed 60 dollars. An alarming transaction, for from this amount of money she must live a whole year. But it went well and only 8 dollars is left over from this loan, while she has enough bamboo for the time being. Normally Minati would have had to pay certainly 100 dollars in interest to the loan shark on the

loans of 25 and 60 dollars. Now she only needs to pay 12%, and moreover that money is used for an extension of the collective. So indirectly she herself is the owner of this money. With the next transaction she will profit from that. The rest of the money that has become available, she has used to be able to live better and to build up a private saving credit.

#### **4.2 Co-operative banking: a community-strengthening case**

The Irish journalist Richard Douthwaite, expert on small-scale exchange saving systems tells a completely different story. In *Short Circuit*<sup>31</sup> he describes how for centuries the banks in Ireland sluiced the rent to London, where the large landowners lived. With this rent nearly all of the total surplus value that people produced disappeared and in the region hardly anything was left to raise the standard of living there. The consequence was that innumerable young Irishmen for whom there was no agricultural work left, had to leave Ireland, following the money. For only where the money was, crafts and trade flourished. So only *there* other work could be found. This way agricultural communities saw young people leave generation after generation. The communities were ageing and languished.

When in 1782 Ireland declared itself independent and many large landowners went back to Dublin, this meant a sudden end to the capital flight from the country. The rents and profits went to Dublin, which developed itself into a prominent city. Magnificent buildings were constructed and hundreds of Irishmen set up their own businesses. At last work could be found in their own country. But hardly 40 years after the Irish Parliament in 1799 was abolished again and the large landowners had left for London, most of these businesses had gone bankrupt. With the large landowners and their money the wealth had disappeared from Ireland again.

Only after the Second World War the banks started to invest money that they received from the Irish countryside in their own country. They invested it in the region of Dublin and just like almost 200 years earlier this led to a fast development there. Young people left the countryside and looked for work in Dublin. Dublin developed itself into an economic and social brewing pot where ever more was invested and ever more work arose. This way this city attracted even more people. The countryside emptied and became economically less attractive. In short: the money flow from Ireland to London was changed into a money flow from the Irish countryside to Dublin. The consequence was the same: people followed the money, first to London, now to Dublin. The countryside became pauperized and the city got overcrowded.

The same story can be told almost everywhere on earth. In the Netherlands and Belgium we see exactly the same. The *Randstad* (the conglomerate of cities in the west of the Netherlands) and the region of Antwerp are developing continuously. Shiny office buildings and new factory halls arise and everything is reconstructed

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<sup>31</sup> Short Circuit, strengthening local economies for security in an unstable world, Richard Douthwaite, The Lilliput Press, Dublin, 1996.

ever faster. Smog, traffic nuisance and social unliveability are among other things its consequences, in addition to growing mobility and every greater and further goods transports to provide for the need of such conglomerates. They are the equivalent of the impoverishment of the countryside, where ever more villages are emptying, the unemployment is far above the average, ever more provisions are disappearing and on many places the agriculture, too, is languishing.

Both phenomena are the consequence of the same financial imbalance. The most part of the money earned in the countryside disappears to the big city. The saving money of those who live and work in the countryside is rarely ever invested there. That money, too, is put into shiny office buildings and the new factory halls in the big cities. "The children follow the saving money of their parents", according to Richard Douthwaite.

Minati's story, however, shows how it can be done differently. We can also deposit the money that we have left over in a collective saving fund. The money in this fund we invest *ourselves* and within the community, independent of banks, investors, financiers etc. Then it benefits the community itself or people within the community. The people themselves collect the money for e.g. a community center or a collective store. We can keep the interest as low as we like. We can even abolish all interest payments, for it is our own money, and we ourselves pick the fruits of the yield. The idea is simple and effective and so everywhere in the world such co-operative saving banks are arising.

Co-operative banking prevents money from disappearing from the community. If you save and borrow mutually the money remains longer available within the community and there isn't any interest flow to external moneylenders. Also if interest is paid mutually, it remains within the community.

This way we create a completely different kind of economy. There are already examples: economies that are involved in their own regions and strengthen the regional production. Because of this many energy-eating transport are avoided and a nature-devouring infrastructure is superfluous. Besides this people now know much better where the products come from and how they came into being. They have also more influence on this, so that they take their own responsibility better for the consequences of their buying behavior. It appears that because of this the participants often become more conscious of their consumption pattern. They start to take care of the durability of product and a shift of the living and consumption pattern in the direction of non-material issues is obvious.

This way also another kind of society arises. A society that is more based on social relationships, on mutual solidarity, on a sense of belonging. Everyone is partly responsible for managing the local economy and the local welfare. This way a close and vital community comes into being and in such a community it rarely happens that people do not pay back their loans. People realize all too well that if they do not pay back the money they will be at the mercy of the loan sharks again in the future.

### **4.3 Perspective for the South**

We cannot emphasize enough the interest of this kind of initiatives for the poor countries. Precisely in those countries the money system is badly functioning. For the smallest investments the local population in the city must contract loans and pay high interests on them, so that ever more money disappears to the city. The consequences for the local economy are disastrous. The money does not flow only from the countryside to the city, but eventually, as a consequence of buying expensive cars, audio and video appliances and the like to the rich countries. This way in the local community the money disappears ever faster from the circulation, while it is so much needed to make mutual exchange possible.

In the previous chapter we gave an example of this. We had a baker, a smith, an oxen car builder and a horse breeder who did not work for each other, because they could not. Not because they did not want to, but only because they had no money. The exchange medium that should couple these transactions wanted by all, lacked and because of this they would become ever poorer, though the capacities and the need for those capacities were certainly available. This is where the local, co-operative bank can provide its services. This bank invests the saving money in their own community and keeps it longer in the local circulation that way. And when little, local companies borrow somewhat money for investments, the village economy does not longer suffer from the interest payments of their fellow villagers. The money circulates in the community and creates work for ever more people. In such a local economy wealth increases and even though sometimes a purchase is made outside the community, then in any case the money has circulated many times and made the community a little bit richer with each cycle.

Of course, this principle can be excellently applied in old working class quarters in the big cities wherever in the world. There, too, you can see how sourly earned money is spent for a large part outside the quarter and soon disappears from the community, and there, too, you can see impoverishment, poverty and unemployment. There, too, you can see how people who could do something for each other, do not do anything for each other, because they have no money to pay each other. Of course, neighbors and friends lend each other a hand. But as soon as the distance increases, this does not happen anymore, because, as it were, the communication medium is lacking: they do simply not get in touch with each other. There, too, a really local bank would offer a solution, because then the people in the quarter would bring their saving money together and grant each other mutual loans. Local co-operative banks can keep the money longer in the local circulation. This way they help to strengthen the local economy and to increase wealth.

### **4.4 Grameen Banks**

Where, as in Minati's case, people in poor communities are for each investment dependent on the loan sharks in the big city that ask for huge interest payments, micro-credits often offer a solution. Micro-credits are small loans that are granted by some banks. One of the best known examples is the Grameen bank in Bangladesh.

In 1976 Grameen started when Mohammed Yunus, professor of economy at the Chittagong University in Bangladesh, talked with a basket maker who was dependent on one and the same person for the purchase of bamboo, obtaining money and the sales of her baskets. For each loan she had to pay him huge interests. Her situation seemed without perspective. However, Yunus was aware that she would have been helped very much by the equivalent of a few dollars. From this money she herself would be able to buy some bamboo without having to pay back this amount manifoldly. Instead of granting her the credit himself Yunus decided to take a structured approach. In doing so the idea for the Grameen bank was born.

In the mean time the Grameen bank has more than a million members. 90% of them is woman. The bank grants them about 96 million dollars in loans each year at the actual national interest of about 16%. So the loans are not interestfree at all, but such interest rates are a trifle compared to the interest that the women have to pay if they borrow the money from the loan sharks.

*By Grameen's micro-credit poor country-dwellers receive small credits because of which new opportunities arise.*

The Grameen bank grants very small loans in which the commercial banks are not interested. An average loan amounts to 2,000 Taka (about 55 dollars) and more than 5,000 Taka (130 dollars) is never lent to one person. The women use the money to start up small, local businesses or to earn an income with their skills. It concerns here things like the purchase of a cow, the making of snacks, the production of brooms or the trading of glassware. Nearly 99% of all loans are paid back in time.

Most of the loans go to small groups of five women that are collectively responsible for the application for the loan and paying it back. Loans are redeemed in small weekly portions. If the first loan is paid back, a next, larger loan can be obtained. Six groups form together a community center (*Grameen*). Each week a center assembles, together they are about thirty women. Among each other they discuss development problems, redemptions and other problems. After this they talk with someone from the bank about loans, interest and paying back. These meetings are public.

The center is also used for social activities. Each group has a group fund on which members can make an appeal for matters like medical care, school materials or housekeeping materials. This group fund comes into being by obligatory saving. The center, too, has a fund. It is used for matters like the building and the upkeep of the own house and the starting up of larger, collective projects.

Besides this, there is a emergency fund, a kind of basic social security fund, and a children welfare fund, that can be used for the building of a school, the payment of a teacher or the buying of school books.

#### **4.5 Credit Unions**

A form of local saving that is now applied in many places, is the so-called *Credit Union*. This is a local co-operative saving bank possessed and controlled by the local population. Credit Unions stem from the *Raffeiensbank* Movement that arose in Germany in the 19th century. In Great Britain and Ireland approximately thousand of such Credit Unions are making the saving money of their members circulate locally at stable interest levels.

The international bulwark of the Credit Unions is the USA, where they were already in existence in the thirties, the Depression years. Now there are as much as 66 million people members of a Credit Union, almost one-third of the total population. Ireland scores relatively nearly just as well: since 1958 Credit Unions have existed there and on a total of 5 million, 1,33 million people were members in 1993. Great Britain knows Credit Unions since 1964. The past thirty years a new Credit Union has been founded nearly every week on an average.

Every member of a Credit Union possesses at least one share. Such a share forms, as it were, your saving money and instead of interest you receive dividend on this. The height of this dividend is determined by the financial results of the Credit Union. Through the years Credit Unions have appeared to be very reliable. You do not need to be afraid for loss of your money: in the Depression years in the US *not even one* Credit Union went bankrupt and in Great Britain and Ireland not even one member lost any money. The greatest achievement of Credit Unions is that they have freed many members from the claws of moneylenders. A member of one of the first Irish Credit Unions wrote to Noral Herlihy, founder of the movement in Ireland: "It has done much good to our members. It has taken them out of the offices of the moneylenders and none of them will ever return there. Formerly some of us got charged an interest of £2.10 on a loan of £10, which they had to pay back in 25 weeks. For the same loan the Credit Unions charge one-eighth of this amount, and moreover this money remains in the Credit Union and benefits ourselves."

*Credit Unions: co-operative local banks keep the saving money in the region and create work and wealth there.*

### **Tallow Credit Union<sup>32</sup>**

One of the best examples of a Credit Union is that of Tallow and its surrounding. Tallow is an Irish village that doesn't have more than 900 inhabitants. But also for several thousands of people in the neighborhood Tallow is the center of the world. Tallow Credit Union was set up by sixteen people in a classroom in 1968. "It has taken five years for we were taken seriously", says Sheila Ryan, honorary president of the union. "Not until we were able to finance our own office, we were considered credible."

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<sup>32</sup> Borrowed from Short Circuit, strengthening local economies for security in an unstable world, Richard Douthwaite, The Lilliput Press, Dublin, 1996.

Until 1984 all the work to run the Credit Union was done on a voluntary basis. Not until then Sheila Ryan was the first paid assistant. This enabled the members of the Board of Directors to engage themselves seriously in the organization's policy. "The board of directors is worrying about the growth of the unemployment in the city and because of this they supported the foundation of the *Tallow Enterprise Group*. Among other things we offered them office room", says Ryan. The Enterprise Group gives among other things training sessions about the setting up of an own company. These training sessions were very successful: out of the 26 participants of the first training the half started an own project. The question was only where these people can get to work. To do so the Credit Unions bought on the occasion of her 21st anniversary a grain storehouse of four floors, restored it and made it available for the Enterprise Group. Among other things a nursery school, a daycare center and a frame-maker were housed there, but the premises were not only used for economic activity. "We have also had courses and exhibitions, and it is used for Tallow's international sculpture festivals."

When in 1993 the grain storehouse was full, the citizens wanted to buy a garage. However, a problem arose: it appeared that Credit Unions were not allowed to buy premises that are not for their own use. So instead of buying the garage itself, the Credit Union lent the needed money to the Enterprise Group, so that they could buy the garage. In the garage, too, various little companies and institutions were housed.

In 1995 the Tallow Credit Union had a staff of four full-time assistants, nearly 3, 000 members and 3 million pounds in savings balances. For a matter of fact: subsequently Tallow is just one of the smaller Irish Credit Unions. But that will not be for long. The growing speed has become exponential: it has taken eleven years before the first hundred thousands pounds in savings balances were reached and 1 million pounds were received after 20 years.

#### **4.6 The turbulent history of the interest-free JAK banks**

It would, of course, be nice if such collective saving would happen without interest. That would yield large extra profits, both in the field of environment and in the socio-economic field. The *JAK* bank in Denmark and Sweden show us that this is possible. So the *JAK* system offers an excellent possibility of making a step towards a new economy.

When in the thirties in Denmark the Raiffeissen banks and the co-operative, agricultural loan banks flourished, some people were setting up a interestfree variant: the *JAK* bank. *JAK* is short for: *Jord, Arbete, Kapital*: Land, Labor and Capital. *JAK* banks are co-operative banks in which the members bring their money together. In certain periods you put in your money and in other periods you borrow from the fund. Both ways happen without charging interest.

Most of the Danish *JAK* banks now provide all banking facilities and they are allowed to *create* money. By using this possibility well they can make large quantities of extra

money available to their members. Free of interest, of course. This interest-free lending offers a number of possibilities. Interest-free loans are used to build for instance windmills that feed the electricity net. Also projects that yield just not enough profit to earn themselves back on the regular money market can be economically sound with JAK loans.

This way environmental products that would otherwise have no chance to get off to a good start. A biogas installation could be commercially achievable in this way. The installation converts manure from the participating farmers into usable gas and dry natural manure of high quality. In the Netherlands such biogas installations are unpayable. They do yield enough money to pay their writing-off, but they don't yield the interest as well. With the aid of the JAK financing the interest is skirted around and only the real yield counts. As long as the installation yields enough to pay the writing-off and something extra for the insurance of the money, the project can be realized within the market conditions.

The JAK banks in Denmark know a turbulent history. They have always been a thorn in the authorities' flesh. In earlier times, because they again and again tried to bring local, self-made money into circulation. Nowadays, because they take the money creation, on which the large banks have the monopoly via the authorities, into their own hands and let the members profit from this. The Danish JAKs are 'complete' banks. Its members deposit their salaries on them and make all kinds of payments. On the basis of what is averagely unused on current accounts, the banks can bring extra money into circulation free of interest.

In Denmark, under pressure of the European integration, ever more often action is taken against local banks. Among other things this is because the banking authorities do not (want to) understand the JAK bank formula. This way they confiscated one of the fastest-growing JAK banks some years ago, because they thought that the people who had borrowed from this bank were not credit-worthy.

The banking authorities expected that those people would not only be able to pay back their loans, but the interest payments as well. And exactly this is not the intention of the JAK system. When the claims of the banks were forcedly paid back, it appeared that there were more than enough own capital and reliable claims to pay all creditors (savers in particular). So the confiscation appeared to be unjustified.

In Sweden there are two JAK banks and in spite of all opposition there are still some in Denmark as well. Unfortunately, several of these banks are 'sleeping': the members are satisfied with their bank, they can borrow interest-free and are not waiting for new members. The potency of this system of mutual interest-free lending remains unused because of this.

Some active JAK banks use their possibilities to help people who have debts. The JAK bank pays the debt at the regular bank and converts it in an interest-free debt at the JAK bank. Because no interest has to be paid anymore, the debts does not grow

automatically and a perspective arises for the people who have debts that are growing above their heads.

Strohalm hopes to use the great opportunities offered by the JAK system in the Netherlands. In co-operation with the ASN bank we are setting up in the Netherlands an interest-free bank according the Swedish JAK model. In one of the next chapters you will read more about this initiative. There you will also read how a JAK bank makes possible interest-free saving and borrowing.

*JAK banks: mutually saving and borrowing interest-free is a next step in strengthening the local economy.*

## Chapter 5

### About money and interest

In the first chapters we concluded that the money system stimulates wasting.

Wasting that among other things expresses itself in a hurry culture and the destruction of the environment that have become unacceptable. Interest in particular was the cause of this. In addition to this money flows to those that already have much. Money demands profit. The consequence is that rich regions where the trees grow sky-high exist along several poor regions where there is a great shortage of exchange medium.

One of the causes of these problems is the interest. So it is self-evident to say: let us abolish and prohibit interest. But *that* cannot be done just like that. It has been tried by several world religions and it has never been really successful. The Mammon has proven to be stronger than a prohibition. There will be interest as long as there is a market economy, say economists. You cannot do without it and you can also do nothing about it. It plays an essential role in the economic intercourse and it is hard to abolish.

Must we resign ourselves to this or are there alternatives? To find an answer to this question we must know more about money and interest.

#### 5.1 The functions of money and interest

To the question what is the use of interest, another one precedes: what is the use of money?

Traditions in what we for the ease call *primitive cultures*, organize society. Old agreements that are deeply rooted in culture and culturally defined hierarchies organized economic intercourse. Money organizes exchange trade between people. That is very convenient in most cases. Money makes a flexible exchange of goods and services possible, for it enables us to exchange between more than two persons: I have something for Frits, Frits has something for Sandra and Sandra for me. We do not exchange directly, but pay each other's goods and services with money.

Moreover money bridges time: now I earn something and for four weeks on end I can buy a loaf of freshly baked bread each day. In doing so money lies at the basis of the complicated economy, as we know it now. Because of money farmers and craftsmen could specialize. Not everyone has to grow his or her own food, not everyone has to build his or her own house. If a smith forged a plow for a farmer, he did not receive ten kilos of meat for this but coins. They did not rot away and he could buy with them whatever he needed, when he needed it and where he could get it. Money makes it, as it were, possible to move the fruits of our work through time and space, so that we can specialize ourselves.

Money as a means of exchange cannot be set aside in the modern society. In the world, which is controlled by money, the possession of money distributes the rights to almost everything. Things do not go to those who need them most, but to those who want to and in particular *can* spend most money on it.

When people or groups of people have a lack of money, this can be disastrous. And in practice such shortages appear to arise all too easily, because money accumulates in certain places and leaks away to other places. And where the money disappears, the organization disappears from society. People do no longer work together and for each other and deprivation arises. We have seen where this leads to: while a great part of humanity guzzles in wealth, another part is hungry. For they have no money.

Money does not work as a means of exchange as well as we would like to. To serve as an exchange medium, money must roll. For exchanging can only happen as long as there is really money available. That means that there must be *enough money* in circulation. And in many situations this is not the case. This is because money is not only useful as an exchange medium, but also as a means to store riches. With a fashionable word: money is a *treasure chest*. It has value in itself and who have left it over, want to keep it for himself, for later on. Who saves something, has something, hasn't he?

Because of this a problem arises. Money is used for two purposes that are contesting, as it were, for the money: the trader wants to trade with it and the person living off his interest want to get rich by it. The first one wants to keep enough money in circulation to let the exchange trade run smoothly. The second one wants to have as little money as possible in circulation, so that the trade will need *his* money. This money is worth extra much because of this. He himself prefers to keep his money to himself. That is most safe. In doing so he reduces the quantity of money that is available as exchange medium and problems are threatening continuously by a shortage of money in the circulation.

If the rich put their all of their savings under their mattress or in saves in their home, the money grows scarce and the interest remains high. Then the economic intercourse threatens to seize up.

The same happens if governments keep money scarce, for instance to be at the service of the rich. In doing so they withdraw it from its daily use and a shortage of exchange medium arises. And then stagnation threatens: the smith has no job anymore and the farmer cannot sell his meat. Eventually ever more people will lack money to buy goods and the activities come to a stop. In short: if too many people keep their money, in the end everyone will stop making goods or providing services for each other. The consequence is poverty and unemployment: unnecessary misery. Among other things the Depression Years have proven that this is not merely theory.

Now keeping money under the mattress is, of course, hopelessly old-fashioned and saving boxes are only there for the saving money of our children. As far as we do not need it on the short term the money goes to the saving account or it is invested. In both cases it is available for people that want to enterprise something with it. Stagnation because people keep their money with them does not occur in the capitalist economy. Saving is more attractive than the old sock, because the savers receive interest on it. The interest causes that the money does not appear in the old sock, but remains in circulation. It lures the money to the bank that lends it. So interest is a reward for leaving money that is not needed for exchanging in circulation. A reward that causes that the exchange medium remains available and the economic machinery keeps running. We cannot deprive the money owners of this reward just like that, but it makes everyone who wants to enterprise something indebted to the wealthy.

*Interest is the price of keeping money in circulation. Without interest a shortage of exchange medium threatens and a crisis because of this.*

Most of the economists call the payment interest “*the price of money*”. In fact this is not correct: interest is the price of *keeping the money in circulation*. We have seen how high this price is, what consequences interest and the money economy have. This price is unacceptable for us. We want structural improvement. That is the reason we must see to it that we eliminate the disadvantages of money without losing the advantages. We want to keep the exchange medium, but to knock down its cost. That is possible, if we can separate the treasure chamber function of money from its exchanging function. In other words: we must make money unattractive as a treasure chamber and at the same time keep open the possibility of an honest exchange. Fortunately there are various possibilities to do so. In the continuation of this book we shall go back to this subject more than once.

## 5.2 How money grows

Suppose, you have an early ancestor who tied up a gold ten-guilder piece on the bank on the name of his direct descendants in the twentieth century: you! This was in the year 0. And suppose that at that time a real long-term interest of 4% ruled. Not particularly high at all. Shortly you may take up the money. How rich do you think you are? Make an estimate and read the next frame.

We have seen in chapter 2 how the economy grows. We have learned the nature of exponential growth. How in fact does money grow as a consequence of interest?

Some calculations make it clear soon. If you deposit an amount on a 4% saving account, this amount will be doubled by the interest after 19 years. When the interest is 6% the amount doubles in 12 years, and if the interest is 12%, then you will have the double amount after 6 years. We can see here the exponential growth curve back. If nothing else happens, money grows exponentially by the interest.

A child can understand that something like this cannot happen just like that; that this money must come from somewhere. Others who are getting at least relatively poorer pay the interest received by some people. But this solves the problem only partly: the poor will very soon not have sufficient money to appease the hunger for money of the saving accounts. Who does not have any money cannot buy anything. Only when the economy produces sufficiently extra, interest can be paid from this.

This money must be spent on something. Someone with a large capital does not spend all the money he earns on consumption. He will invest it again. Partly this happens in speculative activities, partly it will be invested in new production means. And again they all provide money to invest. This way the total economic activity increases continuously. It is ever again on the road to the next round of profits, growing capitals and investments in new production means. New products are introduced on the market ever again and faster machines are designed, and ever again the pressure on the livability, on the natural and social surroundings increases.

You may be very grateful to your greatgreatgreat...grandparent. In 1997 your capital gained by interest would have grown to 1.04 times 10 to the power of 34 golden ten-guilder pieces. About 139 golden globes of the size of the earth would be needed to make all those golden ten-guilder pieces. Indeed, as early as 1863 one gold earth would have been needed to pay your capital. And if the interest had been 5%, than you would have reached the value of one golden earth-sized globe as early as in 1497, and in 1997 you could have claimed 25,7 billion (!) golden earth-sized globes.

### 5.3 Profit

Of course, interest is not an isolated case. The money owner can also earn in other ways than bringing his money into circulation. He or she can also invest directly in a company, for instance by buying shares. From this he receives dividend and if he is lucky there will be nice rises in prices. And if both do not yield enough, he can also invest his money in the currency trade, the land or raw materials trade or the trade in knowledge.

*The nett quantity of money grows much faster than the economy.*

When one of these sources provides less, the moneylenders throw themselves massively into another one. If the interest drops, so many people start buying shares that the exchange prices rise quickly. If the profit is also small on the exchange, then the speculative trade will increase. In all these ways the rich can earn extra money with their money and just like interest does, they all lead to it that money, capital is accumulating itself.

So the ways in which money can grow are mutually exchangeable. When searching for changes we must take this into account: because of this exchangeability prohibiting interest, if this would be possible, would have all kinds of side effects, favorable, but also unfavorable. This way land speculation could start to increase. In the end this would block the economic activities without the money flow from the poor to the rich becoming even just a little less.

Because this exchangeability we mostly speak of *profit*. We define profit as all ways in which capital grow without demonstrable achievement. Inflation compensation, risk insurance etc. we do not count these as profit. These are costs for keeping the money on its value.

Money enables its owner to make more money with sheer money. The reason for this is that money does not decay! The value of the modern money is more or less guaranteed. This does not count for the things you can buy for money. Apart from land they are all subject to aging. They become less valuable, or you must invest money to keep their value. But money stays almost intact. Because of this the money owner can, if he sees no profit opportunities, keep his money with him without any costs and wait for a favorable opportunity to achieve a high profit.

*Profits ends up with people that have already enough and they are invested again. The cycle of concentration, growth and re-investment is an important motor of much renewal of which the profit is doubtful.*

Who needs any money and wants to borrow it usually cannot wait. The sowing-seeds must be bought before the sowing season has past, the potatoes must be prepared and stored before they have rotten away, and new machines must be there, before competition has wiped out the company. In other words: who wants to borrow money is more in a hurry than who wants to lend his money. The solid money brings the money *owner* in a strong negotiation position in relation to the money *borrower*. On the basis of this the first one can successfully claim back more than has been borrowed.

So if we want to fight the effects of interests, then we shall have to fight all forms of profit. We must in fact take away the basis of power that enables the money owner to ask more money back for circulating his money. In fact this means nothing less than that we must create another kind of money, money that does not automatically works in the favor of the rich. Money that is not suitable for accumulation. Maybe we must even create our own money, so that we no longer need the money of the rich!

Later on, of course, we will learn more about this.

## Chapter 6

### Money, interest and alternatives in history

Various great thinkers in human history have understood the dangers of an automatic accumulation of wealth. Among others Moses, the Spartan legislator Lycurgos, Mohammed and even Jesus rejected interest. Lycurgos proposed to replace the golden money by iron money that would rust away and decrease in value because of this. Moses and Mohammed issued strict prohibitions. Even the Catholic Church simply prohibited interest for a long time.

Interest prohibitions have not appeared to be very successful in the past. In the last chapter we saw that this is logical. As long as we have no alternative, an interest prohibition leads to large-scale evasion or to the stagnation of the economy.

Fortunately history also learns that there are also circumstances in which interest does not or hardly occur. Some examples may give us an indication on how a money system without interest can be realized.

#### 6.1 The Grain Giro Bank in ancient Egypt

When in 1910 the Egyptologist Preisigke deciphered the cuneiform script on the basis of papyrus documents, these documents appeared to hold the book-keeping of a giro banking system. In Egypt they knew this particular banking system before the beginning of our era. The calculation unit in which credits and positive balances were expressed was a unit of grain. Payments took place by letting these credits of grain change ownership. We speak of a *grain giro*.

From Preisigke's translation it appeared that in Egypt the farmers gave their grain harvest for storage to state-owned warehouses. Because the water level in the Nile was very irregular, the harvests in the old Egypt strongly fluctuated. By building central warehouses the old Egyptians knew how to overcome those fluctuations. By building up stocks in the fat years they could survive the meager years.

In the warehouse administration it was recorded how much grain a certain farmer had given in safekeeping. The value was fixed by recording the quantity, quality and year. This way the farmer was protected against theft or destruction by fire, floods etc. Moreover he saved on the costs of small-scale storage.

The special thing about this system was that someone who had brought a stock of grain to the warehouse could make all kinds of payments by means of transfer orders to the grain warehouse. This way he paid his tax or rent, or purchased a new plow.

In doing so a part of the grain in the warehouse was transferred from the one owner to the other via a paper transaction. So the farmer paid by giro and the buyer had the choice of leaving his grain on his account or to take it actually away from the warehouse. Transfers *between* the warehouses were also possible.

An additional advantage for the farmer was that in years of large proceeds he did not need to bring his harvest to the market. In those years he would have received a relatively low price on the market because of the large offer. Now he could store the grain as *money* and spend it later on. Only the grain that was needed to bake bread was taken up.

When deciphering these banking reports another important thing appeared: the account holder had to pay a fee to the grain giro for storing the grain in the warehouse. The height of that fee depended on the quantity of grain stored for him and of the duration of the storage. So these storage rates pushed up his giro balance.

However obvious this may be, it was an important discovery, for *at the moment that the account holder has to pay costs to store his grain (money), he starts to try to avoid those costs*. One of the possibilities to do so is keeping the grain money for himself no longer than necessary, so one can assume that people with a surplus wanted to lend it, so that they did not have to pay the storage costs. For people with a large balance applied: it was better to lend at an interest of zero percent than to see the balance shrinking every year.

*A giro system in kind, as in ancient Egypt, makes the holding up of your balance expensive and so it is a stimulus to spend your money or to lend it, even if you do not receive any interest.*

When the Romans occupied Egypt, they brought their own banking system with them. Private banks arranged this money giro system. The pledge was not grain but *gold*. Gold does not rust and is small and durable. Consequently balances obtained a solid and durable value. So the money deposited at the Roman banks was only lent, if the borrower was prepared to pay interest. At Roman banks an interest payment of about four percent was not unusual.

This way a rather unique situation arose, in which a giro system based on perishable goods co-existed with a giro based on gold. For during the Roman occupation, too, the grain giro remained active. For many payments cashless grain money was used instead of the Roman, interest-bearing money. This corresponds with what economists know as *Gresham's Law*. This law claims that when you have balances on two accounts, you pay preferably with the money on the account that yields the least and save on the account that gives you the highest interest.

In other words: exchange medium and treasure-chamber are separated. The consequence is that the money that decreases in value pushes away the stable money from the exchange trade. Or, as Gresham says: *"in use 'bad' money pushes away 'good money' "*.

The Egyptian grain giro is a good example of a money system in which no automatic growth of capital takes places. Profits that are being made stay with the people that

have earned the money: the farmers, the traders and people that run a company. The storage costs are for the money owners a reason to spend or lend their money. Because of these costs it goes from hand to hand, even when the owners are not offered any profit. This way a smoothly running money system without interest or profit payments arises in a natural way. Doesn't that give us an indication for an alternative of the interest prohibition?

## 6.2 Bracteats: interest-free money in the Middle Ages

Around 1150 a period of some centuries in which a special kind of local money was circulating began on various spots in Europe. This local money greased the local exchange trade, but was less suitable for the accumulation of capital. How did this come about?<sup>33</sup>

In this time people traded on markets with the so-called *bracteats*. Bracteats (from the Latin *bractea*: leaf-thin metal) were thin silver coins that now and then were declared invalid. To make them valid again its owner had to go to the Mint to strike over the old head a new one. For this *re-coining* he had to pay 20 to 25% of the value of the coins.

Initially this re-coining took place at irregular times, for instance when the country's king died or when his son married. Later on it happened ever more often and for the rulers it became an effective way of raising taxes.

Historians have paid little attention to this phenomenon and at most considered it to be a primitive and rather clumsy oddity. But doesn't it have a positive side as well? The rich knew the destiny of their money: it was just as transitory as any other possession. For by the imminent re-coining it decreased in value, just like natural goods decrease in value as a consequence of decay, by changing fashion or by harmful insects. Who had a lot of money, also lost a lot when the coins were stricken again.

Of course, the rich started to search for alternatives to store their wealth in ways to which no costs were attached. Wouldn't they have been happy when someone wanted to borrow their money? Then they would let the borrower run the risk of taxation and get the same amount back later on. In the mean time someone who borrowed this money was not afraid for these costs. For he borrowed it to use it and for the greater part he had lost it at the time re-coining had to be done. This way a balance of power between money owners and people who needed money for trade or their company came into being.

*The medieval bracteates show that linking costs to the holding up of money keeps money in circulation, just like interest. So interest appears not to be per se necessary.*

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<sup>33</sup> See among other things: *Stabilised Money, a history of the movement*, Irving Fisher, George Allen & Unwin LTD, London, 1935.

Money owners could also avoid paying re-coining costs by spending their money. Buying art or letting houses built was also a good alternative to keep your capital up to the mark. Is it a coincidence that exactly in this period both trade and arts and crafts fully flourished? Is it a coincidence that exactly in this period magnificent, gothic monuments were built, which can be admired in cities like Berlin, Freiburg, Magdenburg, Kampen, Zwolle, Deventer, Genth and Bruges many hundreds of years after date? Everyone wants to lose money that cannot be kept for free as soon as he can. And when everyone wants to lose his money as soon as he can, it stays in circulation without an interest payment being necessary.

The flourish of Gothic in the late Middle Ages witnesses the wealth generated by an active economy. Documents give evidence of liberal gifts from the circle of urban workers with a high standard of living. Guilds offered little towers, windows or complete altars to the churches. In contrast to the serf in the feudal countryside the citizen could afford a good life. Many a craftsman worked only four days a week and his working day only lasted six hours.

The kings, however, never had enough. The better the cities fared, the more often the re-coining took place. Whereas in the first period sometimes years past before the old head lost its validity, some centuries later this happened in many places once or more times a year. To the citizens this taxation on money became too heavy a burden. Moreover they did not see its advantages. This way the *denarius perpetuus*, the eternally unchangeable coin, became very popular among the citizens and the taxation of (coin) money came to an end.

### **6.3 Money and interest in history**

The Egyptian grain giro system and the medieval bracteats are two historic examples of money system in which interest did not play a role and in which you could not become rich while sleeping, because you had some money. The rich could not keep their riches in money without being punished, because they had to pay for it. *The possession of money costs the owner money*. Because of this the owner very much liked to bring his money into circulation and he could hardly ask for interest. Although this presumably had never been the intention, in practice a flourishing interest-free economy was realized.

When at the end of the Middle Ages the cost-free coin was locally the only coin again, money got the function back of treasure-chamber. With this money the rich could ask for interest and become rich while sleeping. Letting money work for you, this was called, but it mainly means: appropriate for oneself the work of others. The wealth that the cities had developed in the period of the bracteats was now concentrating quickly. The money accumulated at a few people and there was a growing need for large projects to invest it in, for new opportunities to make profit. And one thing caused the other: cultivation became explorations that led to profitable enterprises in robbery and exploitation. And the invested money was growing further.

Later on the industrial revolution opened up new possibilities to make profit. A small elite played a central role in this development. Maarten Toonder depicts them in his *Bommel* cartoon as the *upper bosses*, deplorable creatures, because money controls their thoughts constantly. They accumulated wealth for enterprises that brought them even more profit. Families like the Rothschilds laid the basis for their financial empire in this period. Often these families are still very rich nowadays.

In the mean time little has been changed. Even today interest and profits gather money. Investment capital is constantly on offer, because of which a very quick technical development becomes not only possible, but also inevitable. The growing capitals work as a steamroller of undirected renewal and undirected growth. They make changes very much needed. For those searching for change, both historic examples in this chapter can be a source of inspiration. They show that besides the promise of profit to those who borrow their money, there are also other ways of keeping money in circulation. A fine on keeping money is also able to let the economy run smoothly. That offers a perspective on a money system in which interest and other undesirable forms of undeserved profit do not play a role anymore; so a money system that does not lead to impoverishment, enrichment and to renewals dictated by profits.

*The return of the costs-free coin strengthened the concentration of money with the rich and in so doing the further financing of the expansion of the economy.*

## Chapter 7

### Free money

At the end of the 19th century Silvio Gesell made the experiences from the past useful for modern times. He developed Free Money, a new kind of money that does not know interest and besides this is more effective and free-market-oriented than the existing money!

Gesell's ideas found little following and his followers, the so-called *Free Economists*, kept on calling in the desert. Yet they found an audience in some notable persons. Among them was Irving Fisher, America's most important economist before the Second World War. At the end of his career the Englishman Keynes, the most authoritative economist of the first part of the twentieth century, sympathized with Gesell's ideas. Keynes wrote: "As so often in cases of incompletely analyzed intuition, I only understood their meaning after I had come to my own conclusions in my own way. Until that time I regarded, just like other academic economists, his essential and original ideas as those of a fool" <sup>34</sup>.

#### 7.1 The working of Free Money

Gesell, an Argentinian businessman of German origin, started from a completely new vision on money. In his eyes money was in fact *a service of the community to the users*. You could make the users pay for it, he thought. For this reason he proposed to introduce a *liquidity tax*: a small tax on the possession of money. Everyone who actually had money in his hands, had to pay this tax and only who used his money or had lent it, was preserved from it. Such a tax made money unsuitable to hoard. As long as they do not need it in a short term, people will want to lose the money as soon as possible. They shall buy something for it, invest it in durable goods or lend it. So money has its unlimited exchange function again, without the need to offer the money owner profit for this.

Gesell called this money 'rusting money' or 'Free money', because it would liberate humanity from the grip of interest-bearing money.

How do you bring something like this into practice?

Gesell had a vision of a system in which each you had to glue a stamp on the back of the note in a box intended for that month. Without stamps in all expired month boxes the currency notes would no longer be valid. The stamp would have been sold by the authorities and this way every money owner paid the tax depending on the quantity of money that he or she had in his/her hands.

Modern computer technology makes it possible to apply this liquidity tax on giro balances. Only balances that have in fact been lent to thirds, like saving balances

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<sup>34</sup> The general theory of employment, interest and money, John Maynard Keynes, 1936.

that are fixed for more years, will be exempt from tax for the bank lends that money to another person that will pay the tax.

Who has money, can choose to pay the tax, spend his money or lend it. But the relationship between the money owner and those who want to borrow the money, has, of course, been changed drastically. All money owners will offer their money to evade the liquidity tax. So the offer of money is high and the price, the interest, will automatically drop. For if the money owner asks too much interest, the money borrower will go to someone else. This way a balance arises between the negotiation position of the person who offers money and that of the money borrower. From this balance comes about an interest that should be far from zero. And so the community is no longer tributary to the money owners.

*Whereas now the interest reward is the reason to keep the money in circulation, with Free Money this is the avoidance of money tax.*

Of course, subsequently the borrower will have to pay the liquidity tax. He or she will not borrow more than he or she needs for certain expenses, and will spend the money mostly directly. So the loan will not cost more than a few days' tax. Of course, besides this the borrowers pay a risk insurance to enable the bank to compensate the account holders that do not get their money back. Interest is out of the question.

The money owner can also invest his money himself, of course. He can, for instance, buy art or jewels, or invest it in a (interestfree) state loan and fix his wealth in that way. There is nothing against this: you may be rich, as long as you don't hamper the exchange trade of others. In all of these cases the money remains in circulation and the exchange function is no longer threatened. Instead of interest and profit-taking there is another stimulus for the rich to keep their money in circulation. The new money gets older just like all other things. In a certain sense it decreases in value, for you have to pay to let it keep its value. For this reason Gesell spoke of a *natural* economic order. In this economic order the exchange trade operates as smoothly as with interest-bearing money.

At this moment people that borrow money pay interest on the borrowed money. In a Free Money situation the *people that keep the money for themselves* pay! This way the money flow that now goes from the poor to the rich shifts to a flow from everyone to the authorities. Of course, these authorities must let the money benefit the community.

The fact that you pay then automatically more as you make more use of the community service 'money', is not more than reasonable.

### **Turbo money**

A present-day working-out of Gesell's ideas forms the concept of Turbo money developed by the Flemish economist Bernard Lietaer. Lietaer co-ordinated from Brussels the introduction of the European Monetary Union (EMU) and was involved in

one of the most profitable investment companies on the New York Stock Exchange. Roughly, Lietaer follows Gesell: he, too, is searching for money without interest, for "a system in which people are stimulated to spend their money directly and at the same time to take care for the future."<sup>35</sup> "Money is like manure", Lietaer writes, "it can only do its work if it is spread out. (...) This moral truth diametrically opposes the concept of receiving interest on your money, which is exactly a stimulus for hoarding money."

Only two functions of money are essential, according to Lietaer: money as a measuring unit and money as an exchanging unit. All other functions, such as those of treasure-chamber, are hampering these core functions.

"When someone expects greater uncertainty, he or she will save a greater part of his riches and so there will be less available for direct consumption. Subsequently, at the first signs of recession, you will see that everyone who has a little bit of money, saves more and consumes less, because of which the effect of the recession only increases for everyone else. "Lietaer's conclusion is that we must develop money that fulfills the two essential functions only.

"To take care that it will no longer be used for storing value, we shall build in a turbo mechanism: when someone earns the equivalent of hundred dollars in this currency, we shall give her or him a purchasing power of hundred and ten, provided that the money will be spent today. Tomorrow it would be worth only 109, the day after 108, on the tenth day hundred and after twenty days ninety etc."

In doing so the functions storing and exchanging would be separated. People would spend this *Turbo money* or lend it. Because of this it would be circulating quickly and stimulate economy without interest being involved.

## 7.2 Wörgl and Schwanenkirchen: *Free Money* brought into practice

Back to history. After the bracteates period the interest-bearing money remained the only kind of money in Europe for a long time. Only in the thirties Gesell's ideas here and there inspired local authorities to undertake experiments with *Free Money*. The best-known example is the one in the Austrian town of Wörgl<sup>36</sup>.

Just like in so many villages and cities in those times the municipal council was confronted there with massive unemployment as a consequence of the worldwide economic crisis of the thirties. To cope with this the small town put works out to tender which were paid with self-printed money. In 1932 and 1933 Wörgl brought for 32,000 Austrian Schillings in own, local money into circulation. The counter-value was put in a bank.

To keep the bank notes valid, people had to glue a stamp each week. Such a stamp cost money. For this reason someone who received a Wörgl Schilling, spent it

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<sup>35</sup> Turbogeld - Nu uitgeven voor de toekomst, Bernard Lietaer, Source, no. 1, 1996.

<sup>36</sup> Das Experiment von Wörgl, Fritz Schwarz, INWO Schweiz, 1951.

quickly. For who did not do so, had to pay the stamp costs. The bank notes were broadly accepted. Most people had little choice: there was simply no other money in the town, which was seriously impoverished by the crisis. So a shopkeeper could choose between selling for Wörgl money and not selling at all. Moreover he knew that the municipality accepted Wörgl money for payments of municipal taxes. Also there was always the possibility to exchange it for Austrian money at a small loss. So the shopkeeper accepted the money, he glued a stamp when needed and spent it as soon as he could.

The initiative enormously stimulated the local economy. The money went from hand to hand and the town's wealth increased. While elsewhere in Austria the unemployment increased, in Wörgl it decreased with 25% in two years. In these two years everyone was connected to the waterworks, all streets were paved again and most houses were renovated and painted. Also forests were planted around the town. Many of these activities were not developed in order of the municipal council, but originated from the initiative of the citizens. They wanted to get rid of the stamp costs and so kept the money in circulation instead of hoarding it. Other villages saw this success and wanted to do the same. That was going too far for the government in Vienna and they prohibited the issue of money by local authorities.

An other *Free Money* experiment took place in Germany<sup>37</sup>. In 1930 someone bought a coal mine in Schwanenkirchen that had to close due to the crisis. Subsequently he offered the workers to come and work again. He made one condition: they had to accept their wages in credit vouchers that were called *Wära*. You could exchange one *Wära* for a number of kilos of coal.

Since everyone needed coal and there was a scarcity of Marks, most shops were willing to accept the mineworkers' *Wäras*. For the mineworkers meant extra customers that they else would not have had, for they had no Marks. The owners of *Wära* were also obliged to let their notes be stamped at a small price each month. Without stamps they were worthless. This stimulated the trade, for who had *Wäras* in his hands wanted to get rid of them quickly.

*In the thirties it has been proven in Wörgl and Schwanenkirchen that Free Money works.*

In those times an experiment like the one in Schwanenkirchen could be so successful, because it took place in a context of crisis and enormous reparation payments by Germany due to the First World War. There was a painful shortage of Marks and poverty was everywhere. In this situation the population liked to co-operate in this experiment and the *Wära* had spread itself throughout Germany in 1931. More than two thousand companies joined in. However, the Germany's Central Bank saw this as a serious threat and prohibited the experiment in November of that year. Moreover it warned colleagues in the United States against the effectiveness of this kind of local money. This led to a prohibition of the experiments that hundreds of

<sup>37</sup> Ein vergessenes Kapitel der Wirtschaftsgeschichte: Schwanenkirchen, Wörgl und andere Freigeldexperimente, Werner Onken, in: Zeitschrift für Sozialökonomie 57/58, 1983.

American cities and states were executing or preparing. Even the recommendation of the authoritative economist Irving Fisher did not help.

### 7.3 An incident in France

At Strohalm we became really enthusiastic for interest-free money systems when we heard of the experiment of Lignières-en-Berry in France. One of the few experts on Gesell in the Netherlands, Peter Roelofs, told us the next story:

"In 1956 a few people in Lignières-en-Berry started to print their own money. You could buy their vouchers of 100 francs for 95 franc. After one month you could hand them in and you would certainly get 98 francs back. A notary saw to it that when issuing each voucher always 98 official francs were deposited in a bank account. Who did not hand in the vouchers, had to glue a stamp of 1 franc to keep the voucher valid.

What happened? Many people bought this alternative money. Of course they did! For the difference between the purchase for 95 francs and the 98 francs that you get back for it later on, provided already three francs profit and everyone wanted to have them. And if you saw a chance to spend the voucher before the end of the month, when the stamp had to be glued, then you even made a profit of five francs. So people fully tried to spend the vouchers in the shops. And the shopkeepers liked to accept these *free francs* because of the customers it yielded them. It never could cost them more than 2%, for they could always exchange the 100 francs voucher for 98 real francs. But the shopkeepers, too, preferred the voucher for the payment of 100 francs of course. So they, too, tried to spend them when they bought something.

A part of the vouchers was handed in directly one month after its issue, but a large part wasn't. For when you used the vouchers, you earned two francs extra and there was little reason to let those two francs go. Even when you had to glue a stamp of one franc one time to keep the vouchers valid, you always made a profit of one franc. Most people bought, when needed, that stamp. Soon the sales of the stamps yielded the initiative-takers enough to pay the three francs to those that handed in the vouchers.

Because, of course, nobody liked to pay for the stamp, the vouchers went from hand to hand. They were spread so quickly, that the French authorities got alarmed. At the beginning of the sixties they issued a prohibition."

The stories of Wörgl, Schwanenkirchen and Lignières-en-Berry show that *the capitalistic money is not omnipotent at all!* Every time the state's active support was necessary to defend the interest-bearing money against interest-free money systems! Moreover Lignières-en-Berry and Schwanenkirchen show that people themselves are able to introduce an alternative money system. So *Free Money* is not only a theoretical concept. It is applicable in practice in very various situations. We ourselves can introduce it and it then appears to be more active and stronger than the conventional interest-bearing money. Moreover: the more activity can be settled in

interest-free money, the harder it is to spend the official money. In this way the old money would be used ever less in the exchange trade, if the interest-free has once made a good start. The demand would become so small that the interest might drop considerably.

*Lignières-en-Berry shows that people themselves are able to introduce an alternative money system that is more powerful than the current money system.*

#### **7.4 Free Money and sustainability**

*Free Money* leads, as we have seen, to a more active economy, to the faster circulation of money, to more economic activity, to more wealth. Where there is poverty and the economy has come to a dead end, this is, of course, desirable. But is it also good for the environment? Are an active economy, more economic activity and more wealth not synonymous with economic growth? Doesn't *Free Money* lead to an increase of the consumption and doesn't that mean an increase of the energy consumption, the waste production and so on?

At first one tends to answer this question positively. For years we have left this idea aside at Strohalm for this reason. However, when in the eighties we saw how with the Lubbers' (the Dutch Prime Minister then) motto 'no nonsense' every renewal was rejected and the development got stuck in a mash of postmodernism, we discovered the value of this idea. Had *Free Money* not appeared to be an effective means of renewing the community? So could it not offer the perspective for change that was more than ever needed to work on a better future?

Gradually we also discovered then what the difference is between the economic flourish in a *Free Money* economy like the one in Wörgl, and the undirected growth that characterizes the world economy.

Bernard Lietaer shows very clearly to what other choices *Free Money*, or *Turbo Money* as he calls it, leads.<sup>38</sup> He poses that a crucial effect of the new money is the way in which we look at the future. In the current money system a capital is multiplied more or less automatically and so it is important to earn as much as possible as quickly as possible. You especially benefit from income now and the effects of your actions twenty years from now weigh a lot less. *Free Money* works exactly the other way round. Money that you have now will get ever less worth later on and you can better acquire later what you need later.

"Income later on gets more important than income now" according to Lietaer, "and with this also the long term implications of what we are doing today".

"Once the basis conditions for existence are met, the logical use of currencies in this new context would consist of investments that reduce those costs in the future.

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<sup>38</sup> Turbogeld - Nu uitgeven voor de toekomst, Bernard Lietaer, Source, no. 1, 1996.

These investments are for instance improving the insulation of one's house, taking care that energy is used more efficiently, starting one's own market garden and all what has any value or increases in value (improvement of soil, trees and forests and all the other things that grow). To make a pool for the grandchildren it is a logical step to plant a small forest or keep a 'saving account' in a fund that is doing such things. (...) Consumption patterns would develop themselves into the direction of products with a long life span. Exactly like that people would build houses with an eye to eternity and, as soon as they have money, invest spontaneously in insulation and other improvements."

What Lietaer shows us here is how an interest-free money system does not so much stimulate an undirected economic growth, but can be a starting-point for other human behavior, behavior that takes the future more into account and offers in doing so a perspective on a more sustainable society and economy. It is also important that all kinds of *Free Money* especially use economic potentials that now remain unused, without increasing the total capacity. Free according to Lietaer: do discount systems of the railway companies cause that more people take the train? Yes. But does it also mean that proportionally more trains must run? No, For railway companies limit the use of discount tickets to the unprofitable hours. On the weekend, for instance and during weekdays only after nine o'clock or in the low season. In other words: railway companies take in this way special care that chairs are occupied that otherwise would remain unoccupied. *Free Money* economy is just like that: in such an economy especially unused human labor is applied for needs that otherwise will not be met. People that are now unemployed can in a *Free Money* economy get useful work that meets real needs, but is not done in the present-day economy.

Of course, *Free Money* leads to a more active economy on a short term, but on a long term, when all potentials are used, it could calm down economy, the more so because *Free Money* does not lead to the *accumulation* of capital that is taking place in the present-day money and interest system. Because of this *Free Money* does not lead to the surplus of ever new investments and to the unbridled production growth that is characteristic of the present-day economy.

<p><i>Free Money does not stimulate an unfocussed economic growth, but gives a perspective on a development to a more durable and stable economy.</i></p>
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While *Free Money* leads to more consumption on a short term, on a long term it leads to *less production*. With a heavy *ecotax* (*tax on goods and services that are detrimental to the environment*) we can take care that the (once) increased economic activity has a sustainable character.

## **7.5 *Free Money* and change**

Wörgl, Schwankenkirchen en Lignières-en-Berry are examples from the past. The first two came about under specific circumstance of crisis in which the official money was hardly functioning. But Lignières-en-Berry shows that such a crisis is no

condition for the success of *Free Money* experiments. Does such an experiment have a chance nowadays?

There are a number of reasons why the chances for such experiments are great. The technical opportunities are greater than ever, to start with. Whereas at the time of Wörgl and also Lignières-en-Berry people had to take refuge in clumsy methods such as the gluing of stamps and putting stamps on bank-notes, this is no longer necessary in this computer era. It is now very well possible to introduce an automatic payment system locally and to build in a *liquidity tax*.

A prohibition by the authorities, as until now was the case when *Free Money* was too successful, is much harder. National authorities and even the banks are completely losing their grip on money and computer technology makes it almost impossible to maintain the monopoly on money. *Airmiles and Loko's* (shopping vouchers that have been issued by the Dutch Rabo bank to keep the purchasing power locally) are left undisturbed, though they have many characteristics of private money.

Money has been dramatically changed of character and nowadays consists mainly of *bits and bytes* that are transmitted via satellite all over the world. Unhampered by monetary policy it is hurrying towards that spot on earth where the highest profit can be made and everywhere it is leaving gaps behind. Many sensible activities that are profitable remain undone, because more can be earned elsewhere. Locally economic recession arises because of a money shortage. The introduction of the euro strengthens this process: there is really no reason at all to invest the money that you have earned in Portugal in Portugal as well. Because of this in Europe, too, poor regions threaten to bleed to death. Bringing local *Free Money* into circulation can fill those gaps and it is just the question if authorities will want to prohibit this in the future. For the gigantic migrations that are imminent when regions collapse are politically unacceptable.

So we see both growing opportunities and growing needs for local *Free Money* experiments. They make more services and communication possible and strengthen the social structure. Because of this they provide extra employment and strengthen the community formation. If they have proven themselves in this way, is it also harder to prohibit them. Moreover, in the present information era ever more people will get informed of the experiments and the possibilities offered by *Free Money*. Subsequently the chance is getting every greater that successful examples will be copied in places where the authorities do not nip them in the bud.

This is exactly the kind of movement we are looking for: a movement to a more social and environment-friendlier society.

*By increasing technical possibilities, by the changing nature of money and by increasing needs the perspective for local Free Money experiments grows.*

## **PART II**

### **THE ECONOMY VIEWED THROUGH MONEY SPECTACLES**

In part I we have seen that surprising things can be said about money and interest. Now and then we have already caught a glimpse of how we can make use of them to bring about changes. Before we run through to the various ideas, initiatives and opportunities that make the perspective concrete, we dive deeper into the theory of the working of the money system, so that we shall be better prepared presently.

Who does not like to read this theoretical background can also go directly to part III, in which we deal with the practice that is taking place at this moment or in the near future.

## Chapter 8

### The Circulation of Money

This book is about money as a starting point for change. For this reason let us start looking at where money comes from, where it goes and how it flows through the economy. In other words: let us take a look at the money flow. Step one is then, of course, to answer the question: where does our money come from?

#### 8.1 Where does our money come from?

Once there was a time when there was no money, nowadays billions and billions are in circulation. Where do all those billions come from? How were they brought into circulation?

Banks bring money into circulation. This is called *money creation*. Essentially, money is a claim that you have on a favor in return, on the basis of a service provided by you before. You can make this claim now by spending your money, but you can also postpone it. Imagine that there would be only one dollar. For this one dollar A buys something from B. Now B has a right to a favor in return worth one dollar, but not necessarily from A. But that is exactly the nice thing about money. So B does not buy something from A, but from C. After this, C buys something from D etc. In the mean time A must wait until the person that has the dollar at that moment, buys something from him and that dollar returns to him. Only then he can buy something again. This can take some time and that is clumsy, for he wants something from D now. If A would have a second dollar, the problem would be solved. Later on he would earn it back if someone buys something from him. Money creation can give A this second dollar.

It is clear that to let trade go on smoothly, new money must be introduced in an economy at a certain moment. In any case there must be a sufficient supply of money to purchase products that are made and people are interested in. This money is brought into circulation by banks.

There are two kinds of banks: saving banks and what we call *trade banks*. Saving banks only mediate: they shift the saving money from one person to another as a loan. Trade banks bring new money into circulation, by granting loans without saving money as a cover. After a course of time these loans must be paid back and, like all loans, *with* interest. Because of this, after the loans have been redeemed, the total money quantity that is circulating in the economy is smaller than before they were granted and in as much as there is interest paid for it. This way a shortage comes into being and trade stagnates. But there is no trouble: the banks do grant new loans.

At the time that those loans, too, must be paid back with interest, the problem has, however, only grown: if we must pay back with interest to the banks all the money that is brought into circulation, we shall end with ever *less* money and ever *greater* debts.

That means that in a money system in which money is brought into circulation at interest, the society is forced to lend money ever again, and each time more. A part is used for the normal exchange transactions, but an ever greater part remains active in the financial branch, alternately as an interest payment or as a new loan.

The money quantity must stay growing, for each time interest payments on the new money demand a substantial part of the money that in fact is necessary to settle the affairs. This way we land in a spiral of money growth and interest payment.

## 8.2 The monetary hydrocephalus

In section 5.2 we say how soon money grows by interest. At a 4% interest rate the quantity doubles in 19 years, at 6% in 12 years and at 12% in 6 years already. Such a growth is risky. For in principle money derives its value in the trust that you will get something back for it once. If there is ever more money, there must also be ever more things for sale and if the production does not follow the growth of money, we have an economic problem. But even if it does follow even a little, the effects on nature and the environment are disastrous.

In practice, production grows all over the world, but the money supply is growing even faster. The gap is filled by giving a money value to an ever greater part of our life and of the world and by using ever more money in all kinds of financial transactions. Since the trust in money is not determined by the growing heap of goods and services that can really be bought, but by the promise of profits. The question is if there are still people, companies or countries that can be regarded as credit-worthy enough to engage in new debts. We can see these aspects of the money growth back in reality: a production growth that is highly stirred up and a very risky growth in the money branch.

Trade in money, in shares etc. yields enormous profits, even higher than in the real economy. So the international money trade has become many times greater in volume than the goods trade. It is even whispered that on one day more money is circulating in the world than there is produced in goods in a whole year! You can speak of a *monetary hydrocephalus*. This hydrocephalus grows as cabbage on top of the production that grows already considerably itself. Fantastic amounts are flashing around the world to use every opportunity to make more money. Together they form a *balloon economy* based on air. In chapter 11 we shall go into this more elaborately.

From an article in *De Volkskrant*<sup>39</sup>: "Merrill Lynch, the world's largest organization in the field of capital management, has passed a historic mile-stone in the third quarter of this year. The total of invested money that clients have trusted to this American organization went across one trillion dollars. That is thousand times one billion or a one with twelve zeros.

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<sup>39</sup> Beheerd vermogen Merrill Lynch nu 1 biljoen dollar, De Volkskrant 15 Oktober 1997.

The exact amount is \$1.018.000.000.000 and that was the score at the end of the third quarter of this year. That enormous amount was among other things achieved because during the last two years each working day clients trusted more than \$250 million on average to Merrill Lynch.

### **8.3 How money flows through economy**

Question two is: how does money flow through economy? To get this clear, we make a simple, schematic illustration of economy as it is taught on every secondary school (**see figure 8.3 part 1**).

In plain English this scheme says: the consumers pay to the producers for their products and the producers pay wages to their employees. Because they are consumers at the same time, it is a matter of a closed circuit.

Now let us adapt this scheme, so that it reflects reality better. At first we must make a subdivision in the *producers*. On the one hand there are small companies that produce for the local market, like the plumbers, bakers, greengrocers etc. The profits of those companies come mainly into the hands of people within the community and the money is spent within that community again. On the other hand there are companies that work on the world market, like airline companies and manufacturers of toys, throwaway diapers or cars.

This part of the production sector has a much looser connection with the local communities. In principle the production can take place anywhere and the products can be sold anywhere. It is important that the profits of these companies are not spent in the local communities where they have settled. They can be spent anywhere in the world. This counts just as much for the riches and the wealth that come with it as for the capitals that are put in them. These, too, are not a part of the community. The market of shareholders and moneylenders is an international one and the time of the local baron or industrial family that created a lot of employment in the neighborhood of their residence has past. In fact the companies that are oriented towards the world market join together with the international money flow and moneylenders as a world of their own.

Because these two groups of companies function so differently, we will split them up in the scheme of money flows. The small, locally operating companies are a part of the community. The larger, internationally operating companies are not. They form a separate sector of large-scale industries in which capital investments play a large role. For this reason we speak of the *Capital-Intensive Production sector*: the *CIP*. It remains to be seen if this is a chicken with golden eggs.

Assuming this reality we come to a new scheme (**see figure 8.3, part 2**). The new poles are now formed on the one hand by the local community and on the other hand by the Capital-Intensive Production sector (CIP).

The money that arises by people buying from the CIP community we call *purchases*. The money flow from the CIP to the community we call *wages*, because the payment of labor is the largest part of this. Of course this is a simplification: also within the local community wages get paid and the owners of the CIP buy goods from the CIP. But this simplification makes it easier to see that both money flows must be in balance with each other: what does not go as payment of wages from the CIP to the community will not return as purchases at the CIP later on, and vice versa.

This makes clear how important it is that the goods produced are also really bought by the community. If they do not, the circulation of money will gradually dry out. As early as in the thirties the economist Keynes determined the importance of the demand by *purchasing power*: if not enough money is spent in an economy, then stagnation is imminent!

At that time most people were not aware of this. And nowadays this is not different. Thrift and economy may sound righteous and *to tighten one's belt* is a solid slogan and may draw votes for every politician. Who is economical, who saves and invests will be better off tomorrow. But we forget that when everyone is economical at the same time, this may cause serious problems. In the end, who saves and invests in a factory that will be closed down, because all potential customers of that factory are also saving money and there is no-one who buys anything, will only have saved to see his machines rusting.

If the whole of Europe will become thrifty, as we can see now with the sharp demands to those countries that want to join in the Euro, this can easily damage the purchasing power and paralyze the economy. This "it will be better tomorrow" will remain an empty promise, for if the purchasing power decreases, producers will inevitably run into problems. After all without buyers there will not be profit for any company, no matter how low the wages may be. A decrease of the demand will lead to a drop of the sales and the proceeds *and* to a cutback of the wages, and this will lead to a cut of the production and a decrease of the number of employees. All this will lead to a further decrease of the demand by purchasing power and this way we will be in the middle of a downward spiral.

For a matter of fact it is all somewhat more complicated. Purchasing power, for instance, is not oriented towards the domestic CIP, and the CIP does not earn from the domestic purchasing power only, but we shall see this later on.

Back to the scheme: so there must be a balance in what flows from the community to the CIP and what flows from the CIP to the community. Or: the amount that the CIP earns from purchases must in fact flow back as wages to the community. In practice, however, this is far from being the case.

From the money that the modern CIP business receives, a large part must be paid as profits to the moneylenders and company owners. And these moneylenders and owners spend relatively just a little part of their income on consumption. They have much more money than they need to satisfy all their material needs and simply have

no time to spend the money. For this reason a large part of the profits earned by the rich, does not return in that way as purchases in the cycle.

In the Dutch magazine *Intermediair* we found an unintended confirmation of this: "According the neo-classical theory rising exchange courses lead to an increase in the consumption and so the growth, because the shareholders get more to spend. In practice this wealth effect can hardly be noticed. Two American economists, James Poterba and Andrew Samwick, have discovered why: 77 percent of the private share property is in the hands of 5 percent of the households. And rich people, who own almost everything, spend a smaller part of their capital profit than the average or minimum incomes."<sup>40</sup>

We can speak of a serious leakage: the payments of interest and the profits ask such a large part of the money which is received by the companies that the cycle threatens to get disturbed. If nothing happens, this money will not come back as purchases at the CIP and the CIP will spend less on wages.

For this reason even less money comes back into the community and in the next round even less money from the community goes to the CIP. The cycle stagnates and the CIP loses its golden eggs: the economy stagnates (see figures 8.3 part 3).

"Fortunately" in reality a large part of the money that leaks away to the moneylenders comes back into the cycle, namely in the form of new investments. For the financiers and owners that use just a little part of their enormous income for consumption, do with the remaining part something else: they re-invest it. In the end, through these investments in new, faster and better means of production, the money will come back as 'wages' to the community, which will spend them on products of the CIPs again. The purchases of new machines, the construction of new offices etc. make sure that the cycle is closing more or less. But doing so the financiers and the owner are financing the growth of the production capacity, and in the next round they receive even more profit, which they will re-invest again. This way arises an uncontrollable cycle of new products and production methods, of more products and production means, of quickened demolishing and replacement of production means, of higher profits and further concentration, *accumulation* of capital: economic growth (**see figure 8.3, part 4**).

We can see now where the present money system leads to: because the money is brought into circulation at an interest, a structural money shortage arises that leads to a chronic money shortage. This shortage leads to an interest of far above zero percent. By means of this high interest, enterprising people that need money are always the weakest party and they have to pay profit to the owners and moneylenders. These profit payments form a leak in the economy that can only be closed by tempting the money owners to new investments that lead to an even larger production machinery and even larger amounts that flow to the financiers. This way we have landed in a spiral of ever more production and ever further concentration of

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<sup>40</sup> De dictatuur van de speculatieve geldstroom, *Intermediair*, 3 mei 1996.

capital in a small group of financiers and owners of means of production, land and raw materials, a spiral which we can only break through when we can free ourselves of interest-bearing money.

#### 8.4 How the leak leads to growth

“We consume too little” was the headline of an interview with us in the magazine *Milieudefensie*. In the world of environmentalists this is an immense provocation, for you only have to look at the garbage heaps to know that we consume much too much. So many people fight justifiably for consuming *less*.

Consuming less means among other things: *spending less money*. And although that in itself is fine for the environment, in view of the previous we can see a problem arising now. For what happens with the money that we have left over, if we use less for buying mobile telephones, compact disc players, video recorders and cars? We deposit it in a bank account, or we invest it in a pension provision for the future.

So the less we consume, the more we save.

And what does the bank or the pension fund do with our saving money? For a large part they lend it to companies that invest it in new machines, company buildings, new products, marketing and advertising etc. This way we finance with our thrift investments that lead to more and quicker production and a larger market. In that way our consuming less becomes consuming more for the society *as a whole*. That can never be the intention.

Fortunately there are all kinds of environment-friendly saving possibilities: green funds and alternative banks such as the TRIODOS bank and the ASN bank. There you can invest your saving money in quality instead of in growth into durable energy or in environment-friendly construction methods. Also you can choose to buy better quality goods instead of *more* goods. If products have a long life and use little energy, then consuming less makes sense. The trick lies, however, in the various ways in which ‘we’ save money without our noticing or influencing it. Pension money, but in particular profits that we pay when we buy, our tax payments, rent payments or the monthly mortgage payment. A considerable part of all these payments flows as interest to the company financiers and authorities, to owners of buildings etc. Sometimes these are pension funds, sometimes other financiers. So however soundly we manage our own saving money, without wanting it we contribute to the accumulation of an important part of the money for the next investment wave. The largest part of the money that is invested by banks and pension funds consists of profits from previous investments. In the present-day profit economy arises a cycle in itself in which the money, as it were, looks for its own way, plows the world and eats it. The money *accumulates*, ends up on a heap and is invested again, for a part in all kinds of speculation, for another part in production means that lead to new growth.

*The money that leaks away is partly invested, because of which further economic growth arises.*

## **Chapter 9**

### **Money Leakage: a further elaboration**

#### **9.1 Where does it leak?**

In the last chapter we found that there is a substantial leakage from the money circulation. What kinds of payments does this leakage consist of?

##### **9.1.1 Leaking payments of interest**

In the previous chapters we have elaborately discussed the function and results of interest being charged on the creation of new money. We saw that interest makes capital grow through payments on debts and payments of interest that we pay on the prices of the products. Enormous amounts flow from the poor to the rich and in particular from the average and above-average incomes to the very rich, from the consumer to the moneylender, from the taxpayer to the government-bond holder, to the tenant or mortgage payer to the investor, and so on. It is evident that this flow of interest is large, when the interest rate is high. But when the interest rate is low, this flow is also very large, because then a great many more people are going to borrow.

#### **Money creation**

The creation of money takes a special position. At first, the creation of money seems as follows: if there is more to trade, more money is needed and so additional money is created. But because this money is brought into circulation through loans on which interest must be paid, an enormous outward flow of money from the cycle arises. Moreover, with that the creation of money starts dynamics wholly of its own. For payments that flow from the cycle compel to new creation of money. In practice the creation of money appears to be the greatest source of personal debts.

##### **9.1.2 The profits**

In particular in periods of economic prosperity the profits on investments in companies have an important share in the growth of capital. Profits of ten to sixteen percent are not special and for the large part they end up with people who have so much that they can not by far spend it all. This is, of course, very clear with privately owned companies, and also with companies that give dividend on their shares. It is more complicated when profits mainly lead to large rises in prices of the shares. In the present-day business this is common practice.

##### **9.1.3 Profit on land and raw materials**

In the centers of Tokyo, Paris and New York land has an astronomically high price. Yet this land once had the same value as any plot of the Sahara. So in the course of time a number of people got very rich from this. And even now the ownership of realty in a city yields a lot of money that is among others being paid by the tax payers who

pay for the infrastructure that makes a certain location attractive by people who buy in the shops that must pay high rents because of the high price of land, and by people who live on the expensive land in city areas.

What counts for profits on land, counts for profits on raw material. For years *Shell* and *Esso* have made super profits on selling Dutch natural gas. The European households have paid billions to these companies. For a large part this money is not paid to make wages of the employees higher, but it ends up with the money lenders and it leaks away from the money cycle.

#### **9.1.4 Saving privately**

Our own private saving is an important leakage, too. For instance, a great deal of money goes to the pension funds. This money, too, leaks and ends up in the investment circus or is looking for speculative work.

#### **9.1.5. Ownership of knowledge**

An ever more important source of accumulation of capital is the trade in knowledge and information. Many internationally operating companies make profits by the exploitation of technical findings. Besides the direct application of high-quality knowledge its ownership is important, because the users are often indebted to the owner. A lead in knowledge often is the gateway to super profits. This leads to painful situations. Here follows a good example of this.

#### **9.1.6 Ownership of patents**

In the Dutch magazine *Milieudefensie* an article was published on the consequences of making the Western laws on patents valid on a world-wide scale : “Suddenly the farmers in the Third World had to pay for the use of their own seeds and plants, because Western international companies have a patent on them which amounts to a theft of tens of billions of dollars, legalized by the new GATT-treaty.”<sup>41</sup>

The new GATT-treaty, *Milieudefensie* says, prescribes that all the associated countries accept the patent laws of the Western industrial countries. That means that everyone who wants to make use of the patents registered in the Western world must pay royalties on them. Even local farmers who had known and used the properties of the plants they found in their neighborhood long before Western industries patented them.

“Modern biotechnology is completely based on knowledge from the South”, the Ugandan environmentalist Edward Rugumayo says. “The hundreds of scientists that crossed the woods and the prairies of the South, have discovered the many-sided use of nature mainly under the leadership and on advice of the local inhabitants. “

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<sup>41</sup> ‘Werelddiefstal’, *Milieudefensie*, April 1994.

Subsequently, Western companies patented the obtained knowledge on local seeds and plants. According to the GATT Treaty farmers and companies in the Third World must pay for seeds and plants that they have used for a long time.

An example of this is the Indian Neem or “Miracle Tree” (*Azadirachta indica*). This tree is the symbol of the Indian farmers’ struggle. From time immemorial its trunk, bark, leaves, flowers, roots and fruits have been used by the villagers for all kinds of purposes: as a medicine against leprosy, diabetes, stomach and bowel ulcers, as antiseptic tooth paste, as a means of contraception and as an environment-friendly insecticide. In 1970 an American wood dealer had the idea of importing Neem seeds into the United States. He established that the Neem extract was a good and environment-friendly pesticide, he patented it and sold it to the American Multinational Chemical factory *W.R. Grace & Co.* This factory founded subsidiary companies in India and started to stimulate small companies and co-operations of farmers to produce only for *Grace & Co.* The Indians provided them with seeds, *Grace & Co* took care of the extraction, storage and processing. Now American and Japanese companies have more than ten patents on several Neem extracts. The new GATT patent laws will mean that Indian farmers have to pay high prices for almost every use of the products that have been made with *their* Neem. *Their* Neem, for the selection of the shrub was the work of innumerable generations of Indians.

Even without the GATT laws multinationals know how to gather enormous profits on the grounds of patents that have been registered in the Western world only. Between 1976 and 1980 the American agricultural industry earned about 340 million dollars from this. According the Tunisian technology expert Professor Mohammed Larbi Bougerra the complete execution of the patent chapter of the GATT will yield the United States about 61 billion dollar a year. A considerable part of this yield will come from small companies in the Third World.

For this reason the Indian scientist and environmentalist Vandana Shiva foresees disastrous consequences for the countryside: “If the American patent laws are applied world-wide, business in the USA could yearly claim seven billion dollars from the farmers of the South for plants species that these farmers are already using now.”

## **9.2 The consequences of the money leakage**

All these leakages form together an extensive flow of money. The accumulation of all this money at financial institutes leads on the one hand to an enormous dynamics of growth and on the other hand to a gigantic speculative cycle. Moreover there is a constant danger that the cycle will not close any longer. This has lead and will lead to radical changes in all fields. Are those changes positive in every respect? In chapter 2 we saw that growth does not benefit us any longer now.

Another consequence of the money leakage can be seen in the graphics below. This graphics shows what the consequences of the money flow can be. Ever more money is not spent on the production itself, but on marketing for in order to to make the investments profitable, the provided growth of production must be sold. So

companies make enormous efforts to stimulate the consumer to consume more. That is why tempting advertisements are staring at us on the streets. That is why the showcase of luxury that our society is, shines everywhere around us: commercials on the radio and television, quizzes with high prizes, shop-windows in shopping malls and so on. Altogether they must make us, too, buy a mobile telephone or the latest model of car, or go and watch that film that everyone should have seen, and consume large quantities of coffee, ice and sweets.

The creation of needs has become a science and an investment market in itself. By market research business knows ever again how to discover new space for new demands. Ever again an atmosphere is created that hardly leaves us the choice *not* to consume. We can also see that it is hardly the demand that leads to the offer, like it is the case in the most elementary of economic laws. Ever more the offer creates the demand. We live in an *offer economy*: an economy in which the offer is so overwhelming that almost everyone is absorbed into a compulsion towards more consumption.

## Chapter 10

### The growth or crisis dilemma

Even if we grow at a rate of 'just' one or one and a half percent, the Prime Minister and the president of the Dutch National Bank tell moving stories about how we are doing so badly. Evidently, this is not sufficient, we must have "3% of growth, damn it" (the Minister of Economic Affairs shouts once and again). As if during the past tens of years of growth the problems haven't become just more elusive. Can't we do without growth then? In other words: have we got stuck in a growth *compulsion*, on penalty of a crisis?

#### 10.1 Impoverishment or Growth

Interest, profits and speculative profits make ever more capital and possessions end up with a small group. They think they are getting richer by their growing bank accounts, their growing heaps of shares, bonds, options and so on. As long as each year there is more to share, there might be somewhat extra left for the have-nots. But everyone understands that when the cake remains the same size a few years on end, and the rich will take an ever larger part of it, the rest will have to do with an ever smaller part.

This effect stays away when the rich only get richer in their value papers and are going to consume *more*.

Their increasing wealth has something fictitious: it disappears for a large part into the virtual world of the international money traffic. In this case enough of what can really be consumed is left over for the rest. The last years you can see in the rich countries that most (but not all) people are doing rather well for this reason, even in worse times. After all the *real* rich earn far above the maximum of their consumption and they hardly use a larger part of the cake than before. They do not use the money they have accumulated for buying even more things, but they invest or lend it. Directly to the government, through saving accounts to private persons or companies, through investments in means of production and ever more often in one or the other form of trade in value papers with the expectation to gain profit from this.

On first sight society looks healthy because of this. Only in the very lowest income groups people are cast out, but as a decent middle-class citizen you will only notice this by the ever increasing number of tramps in the shopping malls.

If, however, you count the debts that press on us, a completely different picture arises. The state debt, the mortgage, the consumer credit and not to forget the high bills that are waiting for us and our children because of poisoned grounds, polluted water, all kinds of chemical and nuclear waste and so on: in the future all will press more heavily on us and on the coming generations. So the favorable image is relatively superficial. When the production does not grow fast enough, impoverishment will strike an ever larger part of the population in the long run. To the lowest income groups stagnation can always be felt immediately and painfully. In the

eighties we saw this, when a somewhat too modest growth meant a decrease of the lowest incomes, while the wealthy part of the population saw its bank accounts growing. Always when growth stays away or is insufficient, the social benefits are put under pressure. The government receives less money and interest payments are an ever increasing part of the budget.

So it is not entirely for nothing that politicians do everything about it to avoid a standstill and to create favorable conditions for economic growth. For indeed, too many people *standstill means decline*.

## 10.2 Growth or crisis

The threatening impoverishment shows us how few choices an economic system that is oriented towards growth because of interest gives us. However, it is not only from compassion for our poor fellow men, that we must grow. There is a serious economic necessity to grow: *if the profits do not lead to growth in value, sooner or later we shall end up in an economic crisis*. For when the money that leaks away does not come back into the cycle and there is no longer the trust to borrow it, there will be circulating ever less money in the cycle. And when it cannot make a proper profit, it will not be invested and it will not come back into the cycle.

So there must continuously be profitable investment options for all the money that the rich cannot use for consumption, and therefore economic growth is needed. *New growing markets are no minister's hobby, but absolutely necessary for offering new profitable investment opportunities*. As soon as the investments are not profitable enough, when using the current, priceless money, the danger exists that the capital managers will not bring back the money into the economic cycle. Then a *real leakage* would arise and that could plunge the economy into a serious depression.

We can draw such a depression into the table that we have developed in chapter 8. In **fig. 10.2 of part I** you can see how easily it can arise. The first figure shows us how the money that arrives in business goes for a part to the financiers: shareholders, investors etc. Subsequently they invest this money in business again. This way the economy remains in balance, but the CIP is getting larger.

The second figure shows us what happens when the moneylenders cannot find enough profitable investments. They keep a part of their money or are speculating with it, which disturbs the balance of money. Companies receive less back from the moneylenders than they have given profits and so they have less to spend. They are going to spend less on wages, the number of employees decreases, the total purchasing power decreases and very soon the demand gets smaller.

The third figure shows the consequence: consumers that earn less, spend less too. This leads to the same downward spiral that we saw in chapter 8 as a consequence of too much thrift: less expenses by consumers lead to reduced income of companies, to a further decrease of production and to even less payments of

wages. And that leads to a further decrease of purchasing power, etc. Profits fall and there is less reason for moneylenders to invest their capital. This way the economy ends up in a downward spiral, a depression or even a crisis. The debts get so high that a number of companies go bankrupt. Ever fewer companies will be left over to invest in and to yield profits and this way things will go from bad to worse.

### ***New money to fill the hole***

In practice such a depression arises less easily than you would think on the grounds of the figures. That is because there is a feedback mechanism. When a crisis threatens, interest rates fall and it will become cheaper to take up new loans. These may be loans for new investments, but for consumer credits as well. Because this new money is put into circulation the cycle enlivens, which makes it more attractive for investors. But even if the interest is low, it still means that in the future the economy must yield extra proceeds to pay it. In the long run the leakage in the cycle will only get larger because of this. From now on the cycle does not only leak profits to the investors, but it has also become indebted to the creators of money. In order to keep enough money in the cycle in the short run, this way a heavy mortgage is laid on the future (see fig. 10.2 part 2).

### ***Once again growth or crisis***

So the leakage in the cycle is the central problem of the present-day economy: to get the leaking money back into the cycle sufficient investment possibilities must continuously be offered. Almost every economic policy boils down to this. It is certainly not easy to find always a profitable investment when the capitals grow constantly. Sometimes there is little choice, and there is no innovating technology in, for instance, the car industry, the consumer electronics or the computer sector whereto the increase in offer of money can go. Then according to simple laws of offer and demand this increase will lead automatically to a lower price for this money, or: lower interest and lower profits. And with this the impulse disappears to invest money and bring it back into the cycle. Then it is for owners of capital more favorable not to take any risks and keep the money in hand while waiting for more favorable times. Why should you take the risk of investing money into a new factory when 'bad weather' is coming?

If people see just a little future prospect, then the low interest is an impulse to borrow again. But if this is not the case, we shall come into trouble.

Concerning this subject Keynes spoke of the *liquidity trap*: when the profits fall below three or four percent investors are no longer in a hurry to invest their money. They prefer to wait for a more profitable development, in a new growth market. Then speculation soaks the money away from the real economy.

To the private investor this is a sound train of thought. This way he will make the most profit. However, for society this way of acting is disastrous. If investors withdraw their money from the cycle as soon as things are not going as well for a while, they

increase the danger of a crisis. For then less money goes back to society, so that the demand by purchasing power falls. And then nobody is so mad as to start a new factory or to launch to new product. The crisis is a fact. To prevent a crisis, the growing capitals must always be offered profitable investment opportunities. To do so economic growth is necessary. Here we see the dilemma: *growth or crisis*. This way economic growth has become an inviolable starting-point of capitalist society. We are forced to subscribe to it on penalty of crisis.

The generation of tomorrow will pay the high toll in the form of destruction of the environment that is occurring during our times. On the level of the separate companies we see this growth pressure again. An entrepreneur must invest in innovations. Otherwise he will lag behind with the competition. To do so he usually must borrow money and pay interest on this borrowed money. To be able to pay that interest, the company must obtain extra income and so make extra turnover. People must not only work to maintain the company and earn their own income, but also earn the interest that the company has to give to the moneylenders, the banks

What it boils down to is that everyone with debts must acquire extra income to pay the interest on these debts as well. To produce this income for others they must produce more than they consume themselves. And since at least 80% of the people pay directly or indirectly more interest than they receive, at least 80% of the people is forced to earn more than comes their way and produce more than they consume.

*The dilemma growth or crisis: the capitals must per se get favorable investment possibilities, else the wealthy will hold fast their money and a crisis will arise. For that reason economic growth is absolutely necessary.*

# Chapter 11

## The balloon economy

If unemployment declines in the United States, Wall Street is seized by panic and the Stock Exchange prices drop. When a strike at General Motors against the threatened contracting-out of a part of the work happened the price of the GM shares rose. The Stock Exchange judged positively about the manager's austere position towards the trade unions. And when at the end of 1994 the investors were withdrawing on a large scale from Mexico, whereupon the currency devaluated and the Mexican economy collapsed, the reactions on this at the Stock Exchanges all over the world were positive. Because the capital was invested at places where it could make a higher profit the 'efficiency' of the world economy was enhanced.<sup>42</sup>

### 11.1 From hydrocephalus to balloon

We can see here the excesses of the money economy. The yearly interest on the money that has newly been brought into circulation compels to a continuous increase in new money. Because of this the quantity of money grows exponentially and the economic growth cannot keep up with this growth of money. Because of this the money cannot be put into business. The growing surplus of money that arises should have disastrous consequences for the economy. Yet we hardly notice anything of this. There is no crisis and everything seems, to a certain extent, to be running smoothly. How does this come about? Where does all the money go to that cannot be invested in real production anymore?

*Intermediar* gives an answer to this question<sup>1</sup>: 'The last twenty years the financial sector has grown much faster than the goods and services sector. For a long time for multinationals there has been no waterproof division between industrial and financial activities. Many companies earn more with financial transactions than with selling their products. At the beginning of the seventies ninety percent of the international money traffic was related to trade or long-term investment, while at most ten percent was speculative. According to the Cambridge economist John Eatwell these percentages are now the other way round: more than ninety percent of all financial transactions is speculative.<sup>43</sup> It appears that much of the money surplus ends up in the financial traffic.

Ever more money is involved in it. Each day, astronomic amounts of money are flying around the world, always looking for investments that yield the highest profits. These profits are not obtained in real, hard economic transactions, but on the financial markets, in all kinds of speculative transactions. In this merry-go-round richness means *claims* on consumption instead of a real increase of consumption. Not the physical use of things, areas or people increases, but the claims on them. The basis of many of these claims comes into being because individuals, the government or

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<sup>42</sup> Data originating from 'De dictatuur van de speculatieve geldstroom', *Intermediar*, 3 May 1996.

<sup>43</sup> 'De dictatuur van de speculatieve geldstroom', *Intermediar*, 3rd May 1996.

companies borrow money. They sign an IOU and promise to pay it back including interest. So what is a credit or a claim to one person, is a debt to the other.

The capital of many people and funds get an ever more speculative character by this. An enormous structure of claims has come into existence, claims that must be redeemed first on a share in profits that still are to be made. Claims on currencies of which the price may rise, but also may fall. And options that do not mean, like shares do, pieces of a factory or pieces of production, but only mean that the promise has been made that they will be traded at the agreed price.

The total of claims, are as it were a *virtual capital* that consist of speculative value paper, grows ever more and now includes such an enormous capital that the real economy is not by far able to provide it with enough profit. That is not necessary, as long as this virtual economy itself brings about these profits. To do so a whole construction of value papers has come into being. This construction must give the owners confidence in the value of their paper capital when the growth of real economic value stays behind of the ever increasing growth of debt claims.

This whole trade in value papers is based on the expectation that you can become rich from it and that you can receive the earned money in course of time and make real purchases with it. This expectation is only real as long as traders do *not* use the larger part of their capital to make real purchases. Then the capital mainly stays within the money-money world and everyone can indeed keep thinking that he will get richer from it.

Essentially this is not much different from a pyramid-game. It does not matter it is not possible in the long run, as long as you have the idea you are in a position in the pyramid where you can still get a profit from it. The virtual wealth stands or falls with the confidence we have in it. Sometimes things go wrong. Day after day the shares rise in value and investors think they are getting richer and richer. Ever more people want to get their share and rouse the prices of shares. But now and then, like it did at the end of 1997, the rises in value falter. Then all at a sudden we see the end of the pyramid coming into sight.

So trust in a continuous growth of this kind of paper capital is essential. They are hardly more than air and without this trust only air will be left over. This situation looks much like a blown-up balloon that is expanding more and more. The lesser value papers have to do with the visible property, the higher the profits will have to be. Or else the risk is not worthwhile.

By these extra high profits the necessity of even more fast, new paper capital is getting greater. The balloon is expanding even more with its capitals based on its own air.

As it were, it blows itself up ever more. In this madness companies must make every possible effort to realise rising prices. For this reason we speak of a *balloon economy*.

## 11.2 The consequence of the balloon

As the balloon expands further, more must be earned in this trade in “air” and those incomes also have to make profit. That will succeed for a long time, because when there is so much speculative money involved, the possibilities for speculative transaction also increase. Money-money transactions are a world in itself. Gigantic amounts disappear into the pockets of the speculators. There are days that hundreds of billions of dollars are circulating on the Stock Exchanges, a multiple of what is necessary for real transactions. But then again, the profits in the balloon are very spectacular. A profit of 15% yearly may come as no surprise to anyone. These profits have an enormous absorbing effect on the money in the productive economy. If an investment fund offers 15%, who does not tend to profit from it, too? It is much more attractive than a saving account, isn't it? But the more money people pay in such funds and it disappears this way to the speculative balloon, the less money circulates within the community, for it cannot yield 15%. *There* the lack is getting larger. This way the paradoxical situation arises that on the one hand there is a lack of money, while on the other hand there is a surplus of value papers!

The wheel-work is refined. We live literally on illusions and it looks like this can go on a long time. But real life does not remain undisturbed. From fear of the negative consequences for the price of their shares, companies refrain from investments that yield profits on the long or medium term. And speculations can destroy the spatial structures of countries, their culture and nature, hinder economic activities and drive populations into a tight place by undesired exchange rates. When at the end of 1994 investors withdrew themselves from Mexico, many of the forty million Mexicans were driven into poverty in the space of a day.

The financial fantasy world conceals the growing differences between the poor and the rich. It seems as if we are rich, but together with the claims the debts grow so fast that people without capital claims will discover that nothing is left over for them.

They will get the bill in the shape of more expensive housing, higher prices and higher taxes. Higher debts are just the logical counterpart of growing agreements. The speed in which the division in society develops itself illustrates this.

*Because of the balloon economy there arises on the one hand a surplus of value papers and on the other hand a shortage of exchange means in society.*

It is not the first time in history such a balloon economy arises. In the 17th century a so called ‘tulip bulb economy’ arose. In that time economy was so prosperous that we Dutch speak of the Golden Century. A group of investors gained much money by investments and looked for new investment opportunities. In Haarlem people discovered that it was very profitable to buy tulips of this saving money. The bulbs were very popular and they split themselves after flowering, so that a fast growth of this wealth of flowers was possible. Gradually more and more saving money was put

into tulip bulbs. Because of this the bulb trade grew and the price rose enormously. This attracted new investors and the prices rose even more. Farmers started to specialise massively on the growing of bulbs and often the harvest had been sold before the bulbs were planted.

This way the bulb trade became gambling. To keep the prices high the bulbs were only sold in small quantities. A handful of them made an extremely high price and subsequently the whole stock was valued at this price. The bulb traders, with large stocks in their warehouses, thought they were immensely rich. So it went 'well' with economy.

But unfortunately, rot and mould struck and they started to decay the riches stored in the warehouses. The traders were heavily shocked. All at a sudden all the warehouses were opened and the bulb traders kept clearance sales to be ahead of the rotting process. An abundance of almost rotting bulbs entered the market and the prices fell deeply. Within a few days the bulbs lost their splendour of wealth and so their value completely. That year much of Haarlem's immense riches ended up on the compost piles and rotted away naturally.

### **11.3 What happens if trust disappears?**

So value papers represent values by the expectation that they will yield even more value papers. Yet in the end their value is based on the possibility that these papers can ever be rendered into consumption. That should happen by cashing in the debts that are the counterpart of the value papers, including all the accumulated profits. Only: if it has got so far, there will not be enough left over to consume! The real economy could not keep up with the growth of the balloon economy. A disproportion has arisen between claims and real values. You might abolish this disproportion by simply asking for more money per quantity of goods. This is called inflation. But it means that people without value papers come in serious trouble. Practice in many countries shows us how disrupting inflation may be. When the national currency loses its value too quickly, the danger is imminent that trust can disappear and that the currency loses its function as a means of exchange. Then economy stagnates completely. Inflation also gives problems on the monetary markets. To be taken seriously, the value paper must make a promise of an increase in value. Inflation threatens this promise. Because of this the trust in value papers can disappear and a collapse of the market may follow.

As long as trust is maintained, little goes wrong. But as trust ever disappears, the fat is in the fire. Then the speculators want to render their capitals into real values. And then it will appear that by far not all claims can be paid. The debtors, the innumerable companies and institutes that have issued shares, options and so on, will massively go bankrupt. The stagflation that arises then and the combination of stagnation and inflation will make the Euro, the dollar and the yen valueless and trade falter. Crisis is imminent.

*If the confidence in the value papers falls away, the balloon will deflate, which will cause a money surplus that leads to a 'Japanese' crisis. Then a large diversity in local exchange systems is of the greatest interest to compensate for the consequences.*

In the third part of this book we shall discuss the possibilities to cope with such crisis situations with the aid of local exchange and saving systems that can break away from the whims of the financial sector. Like local exchange circles, or local money that can always be sufficiently available. As it has been proven in the past, *Free Money*, too, can play an important role in preventing a crisis or in the fight of its consequences. A great diversity in local initiatives is of the highest importance to meet the consequences of the collapsing balloon economy.

## Chapter 12

### Employment, government and social benefits

As the last element in this theoretical part, the social-economic aspect will be under discussion: what role does money and interest play in unemployment problems? How far do they limit the room that the government has in its socio-economic policy?

#### 12.1 How does unemployment arise?

*Traditional economists* tell it very simply: lack of thrift leads to poverty and unemployment. People should be more economical. Even better: the wages should be low so that the businesses can save more and invest in new production means and so increase employment.

That sounds plausible and people have swallowed it for years. But you can come to the opposite conclusion via a train of thoughts that is just as simple and plausible. If you invest more, you can produce more efficiently. Then you can produce the same amount of goods with less work, and so with less people. So thrift and business profits will only lead to more unemployment unless you are going to produce *more* of course.

Moreover precisely too *much saving leads to spending too little*, and spending too little leads to unemployment. If shops and businesses sell less, they must reduce their expenses and people lose their jobs.

It is true, lack of an efficient means of production is a drag that can lead to poverty, but it can never be a cause of unemployment in itself. Lack of production means only that people must work extra hard to produce the needed goods, and *that*, of course, will never lead, to unemployment. What will lead to unemployment is the circumstance that people cannot pay each other for all this hard work. Unemployment indicates in this situation, in which people are not working while there is a need for their labor that the *money system is functioning poorly*.

The global money system subjects everyone to the world market standard of productivity: you must be at least be as cheap as the most-advanced automated mass production everywhere in the world. We have already seen that people who cannot work up to this standard have every reason to work for each other. But exactly this money system leads to the situation that they are kept from this by a lack of means of exchange, money. Those who can very well use their labor are poor as well and have no money to pay for it. And for those who do have money it is more profitable to buy on the world market.

So the fact that everywhere in the world all exchange has become dependent on the current money system is an important cause of unemployment. There is still another reason why the current money and interest leads to unnecessary unemployment. The examples in chapter 1 have shown us that the interest pressure makes economically sound investments impossible.

## 12.2 The government as filler of holes

Of course, the government wants as much employment as possible. But at the same time it wants to prevent a crisis and that crisis threatens as a consequence of the leakage of money to the moneylenders. The most obvious way of preventing this leaking away is to cream off the profits and to bring these tax proceeds back into circulation.

In practice the highest tax rates appear to be cut down. As a consequence of the international competition the taxation of profits would become ever more difficult. The rich, so is the thought, will go abroad and because of that this option is left out of the discussion.

*Unemployment shows a poor functioning of money: people can no longer pay each other for their work.*

With this policy modern government has come into an awkward position. The quantity of money involved in financial transactions is growing daily. Among other things via interest on earlier money creation ever more money disappears from the circulation into the balloon economy. That is necessary, for the real economy does not grow fast enough to contain all the capital. In practice the balloon works as a vacuum cleaner: the real economy is not by far as profitable and because of this it loses the competition and has to contend with a lack. The government must solve this problem. For instance via extra state expenses: investments in roads and buildings, salaries for civil servants, social benefits etc.

Those expenses increase the demand by purchasing power so that business receives more and gains better profits. The real economy will become more attractive as an option for investments (**see figure 12.1**).

But for these extra expenses money is to be borrowed and so extra income is to be earned. Subsequently the new growth must produce extra tax proceeds. If the consumers then, full of trust, take up credit and buy lustily, the government can stop bringing extra purchasing power into the cycle. The extra tax proceeds ensure that the debts will not become uncontrollable.

This way the government is the pump that brings in additional purchasing power in hard times. But by the taking up of loans, the state debt grows and the interest burden increases. Very soon the point is reached when the government must make extra debts to finance the interest burden. Then an ever greater part of the money that the government borrows, does not end up as extra government expenses in the real economy, but flows straight to the moneylenders as a payment of interest.

The government loans and interest payments have ended up in the balloon economy, in a spiral of interest payments and new loans. The government itself has

become one of the great borrowers on the money market and the government demands raise the interest rates.

This phenomenon can lead to it that even during an economic depression, if just a few companies are interested in investment money, the interest remains high. Companies are then prevented from investing by the high interest that is caused by the government. To borrow more is dangerous for the government, for then it will stick its head even more into the rope. New loans would mean an even higher interest burden in the future, while the tax income as a consequence of the depression is getting less.

When the economy grows sufficiently this danger does not seem of current interest. Then the tax proceeds rise automatically and there is little trouble. But if things go less, the debts will run out of hand. For if by less economic activity the tax proceeds decrease, the government must borrow extra money..

Reality is even more dramatic. In reality the government must borrow money to finance the payments of interest on earlier loans. It will only get this loan if the money market has trust in the government. And it can only gain this trust by making its own book-keeping 'sound', by limiting the expenses. And that does not correspond with bringing in extra purchasing power in hard times.

The government has little choice. We see that with the introduction of the Euro. Countries are dependent on the trust of the moneylenders and are therefore under pressure to decrease the taxes on higher incomes and profits. Cuts on social benefits and on salaries of civil servants are in this situation almost the only things that are left. But by doing so the purchasing demand is damaged at a crucial moment.

It is not for the first time this situation arises. During and in particular after the tulip bulb bubble tragedy in which private persons had created a kind of speculative balloon economy, the government stimulated economy by incurring debts. Besides the share markets, the active banks and the creation of money, a lively trade arose in 'interests', in which city and provincial authorities borrowed while having as a security the future tax incomes. In this way the money of 'capitalists' was tempted to come back into circulation.

During the hey-days of the seventeenth century the money system was doing well. But in course of time money owners put their money into non-productive and speculative destinations. The government stimulated the circulation with expensive wars and the debts grew spectacularly.

After course of time the financial center of the world moved abroad. The trust in the government decreased and ever less money flowed to the Low Countries. For a long time it was tried to improve matters with cuts, but they only led to it that the expenses in the domestic economy and with it also the tax proceeds decreased. When the debts got out of hand hundred and fifty years later, government could not pay the

interest on the state debt. Not to think of redemption of the debts. There was nothing else left than to declare a part of the debt invalid. In the history books this is known as the *remission*.

### 12.3 Abroad

If the government debts have run so high that they will sooner increase the leakage than make it smaller, there is still one alternative: keep the circulation going on by sucking in purchasing power from abroad. Foreign purchasing power must compensate the money that is leaking away. Then restraints in wages seems an efficient means of producing more cheaply than foreign countries and sucking in their purchasing power this way.

The annoying thing is just that nowadays almost every country follows that strategy. Every country wants to export as much as is possible and every government tries to coddle the exporting countries this way. Loans and social benefits are cut to compete on the world market.

But for every country that sucks money from abroad, there is at least one country that loses this purchasing power. The Netherlands has drawn purchasing power from abroad for years. To keep an export surplus apart from the natural gas, the Netherlands have led the way in restraining the wages and the cutting of the social benefits. It has been successful in sucking away purchasing power from other countries, and the Dutch economy has been prosperous. But other countries tried the same and the advantage disappears sooner or later. Everyone gets worse from it and a downward spiral arises. Even the rich lose in the long run. It is true, in the beginning the profit increases sharply and the profits get a large part of the income in a short time. But if the purchasing power falls worldwide, then the profits fall as well. In course of time this recession can be felt even for the richest boy in the class.

In this light the spending cuts in preparation for the Euro are proof of a tragic misunderstanding. The European economy consists for the larger part on domestic trade. Cuts are threatening this trade and give at its best the chance that in this race of cuts we are ahead of other parts of the world and gain a temporary benefit from it.

Yet this whole situation is not only disadvantageous. A government that has enough money to keep social benefits at the same level is sympathetic towards local initiatives in which people themselves take care of their employment. You can see that in Australia and New Zealand, but in England as well. In New Zealand even the president of the central bank is an advocate of local exchange systems. He is aware that the policy he must make to keep the inflation in hand has as a consequence a lack of exchange means for poorer people. A forward flight into further growth is no longer possible, considering the environmental effects. So there is reason enough to start looking for durable local economic solutions.



## **PART III**

### **FROM THEORY TO PRACTICE**

It is high time to show what already exists of renewing initiatives and what else is possible. Money forms an excellent starting-point for changes. It offers numerous possibilities for small-scale experiments that can bring local economies to flourishing and let everyone participate in this flourishing, without damaging the natural environment.

In the last part of this book we are looking for what is already going on in the field of the local exchange, saving and loan initiatives and what kind of ideas live in that field.

In this field more takes place than everyone knows. The search for more durable forms of local economy takes place all over the world and we all can learn from each other. We can pick up ideas in the South, the East and the West and ever again this gives us new hope. At the same time for the people there it is hopeful that also in the rich North, the center of the power of the modern money, people are actively working on alternatives in this field.

## Chapter 13

### LETS: exchanging in one's own neighborhood

We start our quest for alternatives for the money system with the form that is most frequent in the rich world: the LETSsystems. These local exchange systems have been growing worldwide. In the short time since *Strohalm* introduced LETS in the Netherlands and Belgium, LETSsystems have arisen in tens of places.

The advantages offered by LETS are innumerable. In LETS you can develop capacities for which there is no interest outside the system. You make contacts there and you can make a safe start with a new job. In a LETSystem everyone is valuable and you feel concerned in each other. It is true, LETS are a limited but very lively piece of a sustainable society. And you also obtain somewhat extra purchasing power.

So read the story of LETS. Make acquaintance with the mother on the dole who can afford some extras again. With the handicapped person who can go out again. With the Moroccan cabinet-maker who is starting up his workshop and with the older woman who helps others with her knowledge and makes many friends in doing so.

#### 13.1 The history of LETS

At the beginning of the eighties the small town of Comox Valley near Vancouver had to cope with three serious economic blows that came short after each other. Nearly at the same time the logging industry was curtailed, on a large scale tourists stayed away because of the unfavorable rate of the Canadian dollar and a nearby military base was closed down. So in one time the three most important cornerstones on which the local economy was built, disappeared. The consequences were disastrous. Inhabitants of Comox Valley saw how their community went down. A large number of people lost their jobs and had to cope with great financial troubles. Because all at a sudden in the community as a whole a lot less money was spent, many were dragged down in their fall. All kinds of businesses went bankrupt. Suppliers and building companies went bankrupt and everyone who lived of the local purchasing power got into trouble. The local trade soon dried up.

To start up the mutual exchanging again, David Weston and Michael Linton brought a giral currency into circulation. In a central book-keeping everyone's account was registered. This way the first LETSystem started off in 1983.

Soon the national press got interested. The phenomenon LETS spread itself quickly over the whole of Canada and somewhat later over the USA. In 1987 it blew over to New Zealand and Australia. There LETSsystems assumed enormous proportions. Now there are in Australia more than two hundred fifty systems, in which some participants get eighty percent of their freely spendable income (so income without fixed costs) from the LETSystem!

The largest LETSsystem in the world at the time of writing is the one in Auckland, New Zealand. There the local department of the trade union has set up the system as a part of a whole range of activities to help the unemployed members as much as possible. The system has more than three thousand members, among which a number of companies. Great Britain was the first to introduce a LETSsystem in Europe in 1988. Within a few years the LETS concept became popular with a great number of people. At the moment there are about three hundred systems working. A success that can be partly thanked to the very active umbrella organization LETSLINK UK.

In the Netherlands LETS is a relatively new phenomenon. A phenomenon, however, that grows explosively. The first system was set up by Strohm in Amsterdam at the end of 1993. A year later there were 12 systems. This number increased to 42 in 1995 and the growth has continued in the years thereafter. At the end of 1997 there were about 80 systems. Also the number of people participating in each system is considerably growing. This growth is continuing and in Belgium a comparable development gets started.

*LETS: since 1983 worldwide a fast growing phenomenon*

### **13.2 What are LETS**

Perhaps you are used to helping each other in your family, circle of friends or neighborhood. Then it may happen that you have asked the same person somewhat too often to help painting your house or to take care of your children. And even if you have done some odd jobs for someone else, yet it becomes ever more difficult to ask that same person again. Even with friends it cannot always come all from one side.

There would not be any problem if you could settle the help with money, but in the family or in the neighborhood you will prefer not to do so. This does no justice to the mutual friendship and it is too impersonal.

Of course, for people who have no neighbors or family that they can ask for an odd job, this kind of matters does not play. They are a lot worse off: for everything they are thrown on approved craftsmen and they cost money. And we often have a shortage of money.

What you nearly always see is that we mean less for each other than we could. LETSsystems are a way of filling this hole, to streamline and expand the mutual assistance. They are a form between neighborly help and friendly turn on the one hand and the cold business-like character of money on the other hand. LETSsystems 'organize' mutual exchange of services and goods with the aid of an own exchange unit and an own administration.

That sounds more complicated than it is. A small LETSsystem is nothing much else than a group of friends, acquaintances or neighbors that help each other. Only in a LETSsystems it is registered how much credit everyone has or how much everyone

should do in return. Because of this you can always make an appeal on someone who is most handy at the job even if this is the hundredth time. For through the system you can compensate this by doing something for others. And the person that has helped you can get his or her reward by choosing from a much larger offer of return services. So it is not a problem at all if that one neighbor woman does a lot more for you than you for her. Or, for instance, when you have small children and take a lot more than you give for a time. For you will compensate this when you children have grown up.

*LETS: mutual exchange of goods and services with the aid of an own exchange unit and an own administration.*

*SANNE, mother on the dole with a nipper: "After three weeks of waiting for a housing permit for my new home on the other side of the park, I can finally start writing my change of address card. By hand, yes, that is personal. And I take them all round as well. Together with the LETS mailing that has by exception been moved to today. Someone at the office phoned me to say that I can come and take a sander. FATIMA comes to look if the (glued) parquet floor can be moved. I ask DIMITROV for a Feng Shui consultation, an age-old Chinese method of interior architecture. Another LETS member has brought a small folding bike from Italy for my little son. Before long he will become three years and this way I can give him a nice birthday present."*

### **13.3 How do LETS work?**

LETS systems are circles of people who exchange mutually. Not the old-fashioned exchanging in which I do something for you and you do something for me. But a modern way of exchanging: I do something for you, you do something for someone else and that person does something for me, and everyone does what he or she is good at and likes. One person pastes a tyre, another one bakes bread.

The person for whom you do something, does not necessarily have to do something in return for you. He or she does something in return, but this may be something for someone else as well. You can come into your own because someone else does something else for you.

To be able to compare all those exchanging activities, the participants exchange points: the LETS points. For each service or product that you supply, the person to whom you supply pays a number of points. You agree with each other upon how many. Those LETS points seem like money: you can buy services and goods with them. But they can only be spent at the participants of the LETS system.

What we still need now is an administrative system that records how many points the participants are having or owing. Essentially, such an administrative system is very simple and for small systems pen and paper will do soon enough. Most of the LETS systems make use of a computerized settlement system. All the participants of such a system have an own account in which the balances are registered.

Regularly everyone receives an account survey on which the current balance is noted. Via checks LETS points are transferred to the accounts of other participants. So the administration is precisely like a common giro or bank account. You send your payment orders to it and the amount is transferred from your account to the receiver's one.

Every member starts with a balance of zero. The net result of each transaction is also zero: what is reduced from the one account, is added to the other. Also the sum of the balances of all members is zero. To be in the red is no problem at all: opposite to members that have a positive balance, there are automatically members who have a balance below zero. So to be on zero does not mean at all that you have nothing to pay with.

A beautiful administrative system, however advanced, is of course not enough. We also want to know what other people offer or ask and we want to let the others know what we ask or what we offer. Most systems publish a magazine in which the members can place their advertisements of offer and demand. This magazine is sent to all members and they can often read in it about the on-going affairs of the system and about other members. Some systems make use of cable television, local teletext and even Internet, and regularly LETS markets are organized at which members show each other what they have to offer.

*FREEK is tied to home by a handicap. "One day my dishwasher broke down and stood full of water. It was sweltering and it would stay that way the whole week. And my diary was bulging with orders for my catering company. I had to phone for a new pump. That gave me a start: 53 Euro and a delivery period of about a week. Holiday period. And then it had to be installed as well. I was panicking. I grabbed the LETS magazine and after a number of phones I got in touch with HAROLD. He came, watched and won! Together with my son he took out the pump and some odd parts. Then HAROLD put the pump back and he was ready.*

*At first the bugbear I faced was that I would have to buy a wholly new dishwashing machine, but now I did not even need a new pump. I was very happy! A nice side-effect was that my son received a good lesson in technics. My dishwasher is still running smoothly and I am incredibly thankful."*

*LETS:*

- 1 Everyone starts with a balance of 0*
- 2 What during a transaction is added on the one account is subtracted on the other*
- 3 Everyone is within certain borders free to have a positive or negative balance*

### **13.4 So many souls, so many LETS**

There is a great diversity in LETS systems. Some circles consist of only ten people, while the largest system in the Netherlands consists of about seven hundred people.

In some systems the points exist in the computer only, while other systems issue vouchers and checks with a value printed on them.

Systems themselves give their currency units a name. This way you can pay with 'Noppes' (meaning 'nothing') in Amsterdam. In Groningen and Arnhem they use 'Eco's, in Leeuwarden 'Tuinen' ('Gardens'), in Utrecht 'Sterren' ('Stars'). Others systems stick with 'points' or 'LETS'.

Within the system it is agreed upon that the value of one point is equal to the national currency, so the guilder, the franc or the dollar. In some systems the unit is one working hour for a job of an average difficulty. The offering and demanding party can negotiate then on in how far the job is comparable to such a standard hour and agree upon a fee per hour.

For instance two hours per hour for a dirty job and a half hour per hour for an easy job.

Characteristic for LETS is that the offering and demanding party agree upon the price to be paid. Together they decide upon what happens and at which conditions. This is of crucial important. It keeps the system flexible and practical. A special characteristic of a LETSystem is that half of its members are in the red. So to be in the red is normal. Without debts a system is even impossible, for without negative balances no positive balances, so no transaction at all will arise. Yet to be in the red is a problem to many beginning members. You should learn not to be afraid for this.

Each system has its own way of dealing with this problem. Some systems give new members a welcome premium that is paid from the yearly contributions. Others take care of personal guidance of beginning members or of members that are trading too little.

*There are almost as many types of LETSystems as there are LETSystems.*

It will be clear: so many souls, so many LETS: there are nearly just as many different LETSystems as there are LETSystems. And if we are to bring about changes in society, this is favorable. How more various the systems are, the wider their range, and the larger the chance that somewhere in a system a renewing break-through arises.

BAZAAR, a starting Moroccan entrepreneur: "A few years I have been trying to start as a cabinet-maker. But it is always hard to begin. How do you get customers? Where do you get good tools? How about these complicated Dutch laws? Fortunately, I could become a member of LETS. I started small and ever more often I get the chance to do some carpentry. Many people enjoy having in their home a piece of furniture that is handmade. People pay my work in LETS units and the material in guilders. I made a few tables with chairs and provided an office with writing desks. And before long I am going to build a showcase for the goldsmith in the system.

Now I also sell furniture outside the exchange circle for guilders. Because of this I can rent a room with better equipment and I can pay my taxes.”

### **13. 5 Another view on the needs and possibilities**

“An excellent idea, but I have nothing to offer.” This is the mostheard reason why people hesitate to join a LETSystem. It can be concluded from this that it is very easy to underestimate the possibilities of people. For nearly everyone has something to offer that is needed. Very simple thing we overlook because we have learned to see our possibilities and needs in relationship with money only.

An example: a woman who ‘could do nothing at all’ regarded rambling as the nicest thing there is, just in the neighborhood, even in bad weather. She only had to become aware that she was cut out for delivering bills, club magazines and, of course, the LETS magazine. Moreover, she liked cooking.

In another system there is somebody who likes cleaning and dishwashing after very late parties. Many people are interested in this, but who would ever hit upon the idea of asking someone to do so?

A grandmother that doesn’t need, even is not allowed to knit for the children of her son finds within the LETSystem people who *do* appreciate her knitting. And someone who also didn’t know anything to offer, discovered she had saved as many as 53 things that she did not need anymore, but found a waste to throw away or that she might need at a later moment. So she had much to offer, for in a LETSystem it is not necessary to save endlessly things that you do not need for a while. You had better offer them in the system and ask them back when needed in the future.

*HANS is an electronic engineer and he repairs anything having to do with electricity. If necessary, he can also take computer cards to pieces and then put them together again. This was his job at university. Four years ago he could retire at an early age. In fact he did not want to stop working at all. In the beginning he missed the social contacts. And then he joined a LETSystem.*

*He can tell hours about the jobs he has done. About the female artist who want to engrave with a defect, antique dentist drill and about the mother on the dole who had said to the mechanic that her dishwasher could not be made. In a residential community for people with a physical handicap he thinks out all kinds of technical tricks so that they can operate their own buttons. HANS: “People are often so glad. In the past I did not know that there were people with so little money. If I repair their machine for them, they fall crying around my neck. Yes, then I don’t need anything else, do I?”<sup>44</sup>*

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<sup>44</sup> From: Genoeg, tijdschrift voor consuminderen

*LETSystems offer people the opportunity to offer or ask for goods that are not (or cannot be) offered or asked for in the current economy.*

### **13.6 Profiteers?**

A much-heard question is how a LETSystem is protected against people who cheat or who incur high debts and then turn their back to the system. *In practice this rarely ever happens.* There are several reasons for this. A first guarantee is the social responsibility of the salesman. He knows to whom he sells and usually has the best insight in the reliability of the buyer. To support this insight the balances and the turnover of the members are published in most of the LETSystems, so that everyone can see who has too many debts or who has a positive balance. So members who have taken too much out of the system and produced too little are known. The consequence is that they will be asked more often to do something. At the same time people will become more careful in selling their goods and services to someone like that.

There is a story about someone in an Australian system who wanted to buy a second-hand car for the third time in a short while. By coincidence the offering party knew about one of the previous cars. He checked the balance of the prospective buyer and when he discovered that it was far below zero, he asked him why he had to have another car again. Eventually it appeared that he sold the cars for dollars and so earned dollars while having debts in LETS units. Then the seller refused to sell his car and made it public within the system what he had found out. The car trader was forced to do something back before others were prepared to sell something to him.

Of course, you can get out of the system with a very negative balance. But mostly LETSystems are also socially interwoven groups. They often exist of various groups of friends interconnected to each other. If you cheat the group, you set yourself apart not only from the system, but from your own social context as well. Gradually people get to know and trust each other. Then it becomes acceptable if some are getting more debts. In most cases it will turn out well, certainly for people who are doing a lot for the community. In some systems the administration introduces credit limits as an extra lock on the door. Who wants to incur higher debts, has to ask permission.

Eventually, it is often determined in the agreement of membership that when somebody wants to leave the system with a high debt in LETS units, it can be demanded that he pays the debt in guilders. In other words: you will first have to do some jobs or else pay you debt in guilders, before you can get out of the system.

### **13.7 The social function of LETS**

LETS strengthen the social connections in streets and quarters. A LETSystem brings you in contact with the people around you and in practice it appears that nearly all participants make new friends. People who are lonely get people about the place again. Newcomers soon get new friends and acquaintances. The elderly get the help they need.

LETS take people as it were from 'behind the geraniums'. LETS give the possibility to actively participate in society. In doing so LETS play a social role, which too often remain undone, in modern society. LETS give participants control again in their own street, neighborhood and city. Nobody needs to wait anymore until the authorities solve the problems. LETS are an initiative of people themselves, to which everybody is invited. Everyone can become a member of LETS. LETS exceed color, age, sex and education. Grandfathers are taking care of the children, mothers on the dole go on holiday, Croats receive language lessons and my neighbor is helped with his tax-papers.

If there are members who are not able to do much and are dependent on their surroundings, then a LETSystem can help. For instance, if members are seriously ill, it is accepted that they incur high debts. Of course, everyone knows that they probably will never pay their debts. But exactly within a LETSystem it is no problem to work for someone who does not earn anything. For you receive your points as usual and the other members recognize them. This way the burdens of sick people are automatically born by the whole body of all members.

Besides, do not think this occurs often. Within LETS someone who is confined to one's bed can still offer services. Famous is the example of a handicapped woman who liked LETS exactly because she did not longer have to beg. She could not do much, but she could very well read to children. Her offer appeared to be such a success that she acquired a positive balance.

For that matter in some LETSystems a levy on positive balances is introduced to set up a fund to pay for the debts of people who for one reason or another cannot do something back.

<i>LETS strengthens the social ties in a village or neighborhood.</i>
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*HEIKO is 39 years and physically handicapped since his birth and because of this he needs to sit in a wheelchair. The only way in which he communicates is by means of eye contact or by moving his head. With all his limitations he still knows to offer something in LETS. With a brush connected to a headband, he makes abstract paintings and he sells them for LETS. And if, against expectation, he should spend more LETS units than he can earn, he can make an appeal on the LETS fund. Of course, HEIKO can use a lot of help. The people that he engages for LETS accompany him to the park, the city or a concert and take care he returns home safely. His own circle of friends would not be adequate and professional help is simply too expensive. Since he has joined LETS, his life has become a lot more agreeable and he has regained freedom.*

### **13.8 Hours exchange systems**

Related to LETS is the hours exchange system. An hours exchange system is local too, in an hours exchange system, too, it is registered what everyone's balance is and an hours exchange system, too, fills the gap caused by the current economy.

In hours exchange systems, just like in LETS, services that are not worth much in the regular economy or are unprofitable are appreciated. But there are also many differences.

Hours exchange systems like the Foundation *Over en Weer* in Amsterdam, start from an hour or a part of the day as an exchange unit. Every service has equal value: an hour of unplugging the sewer or taking care for three babies counts as much as an hour of knitting. But you can, of course, always mutually agree upon it that just a part of the hours that a job is taking counts, so that looking after a house for a week does not necessarily cost as much as helping a week with a rebuilding.

But while in a LETS system the offering and demanding party agree upon the price of a job, this is in principle fixed in an hour exchange system. The participants only need to register how much a job has cost.

*Hour exchange systems are more idealistic, but less flexible*

LETS are market systems in which to a certain extent offer and demand fix the price. Scarce capacities often are more expensive because of this and this has as a disadvantage that inequalities in reward can arise, inequalities that we know too well from the current economy and which you can question. Without people having thought about it, the often absurd difference in reward can penetrate the LETS system and worsen the relations there. In an hours exchange system this is not possible.

LETS systems, on the contrary, are more flexible. The free price offers a number of extra possibilities. This way in hours exchange systems it is unattractive to offer scarce services that yield a lot more outside the system. In a LETS system you do get a higher yield, so that such services are offered a lot more.

Moreover it is possible in LETS to offer besides services goods as well: second-hand goods or products that have been produced in the system. In most hours exchange systems it is hard or even impossible to do so. This is crucially important for local businesses. They will not join hours exchange systems, simply because their products cannot sell there. Food co-operatives, organic food shops and bakers will not join in soon. That is a pity, for exactly those businesses you can use well to extend your system. Mainly in the field of alternative agriculture, good food and the like LETS offer possibilities that hours exchange systems do not offer.

So both hours exchange systems and LETS systems have their strong points. LETS are dynamic systems that have the potency to develop into considerable systems that cover a substantial part of local economic intercourse. Hours exchange systems form an idealistic co-operative in which we can learn how to live without structural

differences in income. The criticism from hours exchange systems that LETS are too market oriented, with all existing power differences deriving from this, is partly true. But in practice LETS systems mostly are completely different from what we know of the dollar market system.

### **13.9 Barter systems**

A LETS system comprises in particular individual people and some small businesses. Most businesses ask for more security than LETS offers. They want the hard guarantee that they can use their LETS units. To them the creditworthiness of the person who is going to have debts is of great importance and the informal way of settlement that is taking place in LETS is too untransparent. That is why they use no LETS system, but a *barter system*.

A barter circle is mostly set up by a commercial business. This business earns money by offering upon pay companies the opportunity to deliver their products and services within an own settlement system. The reason for many companies to join in is that they get an interest-free credit.

Just like in LETS the mutual transactions are registered centrally without using any money. But these transactions are committed to much tighter rules. For instance, a business has only a limited permission to get into debt and transactions cannot take place directly between members. They always take place via an intermediary who checks the creditworthiness.

Transactions in a barter system are arranged by field assistants. They are continuously bringing about transactions. They inform what a company with a positive barter balance needs and look for a supplier within, and if necessary outside, the system and this way they try to bring about a cycle. If two members come to business, the barter organization gets several percents of commission from the selling company for bringing in customers. Those commissions form together with the yearly contributions the income for the company that set up the barter system.

*Barter circles: a kind of LETS systems by companies*

The most successful barter system in the world is the *WIR-Wirtschaftsring* in Switzerland. This system has been set up by followers of Sylvio Gesell in October 1934. In 1994 the turnover was 6 billion dollars and 70,000 small businesses participated in it.

Barter in the United States is a very widespread phenomenon. The fact that they are run by a commercial organization has often led to problems in the past. For the barter company keeps the administration itself and then the temptation is great to give itself an extra large credit. Eventually the barter company could as the only one be in debt. Participating companies are ever less motivated to sell and the circle goes bankrupt.

By these kind of practices barter systems in the US had a bad name. Now it is going better, thanks to a kind of hallmark of barter systems that comply with certain rules and can be controlled from the outside. Now a considerable part of the American economy is settled in barter units.

## Chapter 14

### LETS and change

Do Local Exchange Trading Systems (LETS) offer an alternative for the existing economic structures. Do they offer a starting-point to bring about changes?

#### 14.1 What can LETS do in a community?

Changes do not need to be great and all-embracing. Even on a small scale LETS systems can bring about directed change. Because every LETS system has its own character, priorities and ideals, under the denominator of LETS a multitude of experimental alternatives arises. This way there are systems that contribute towards a society that is ecologically sound. Examples are the Dutch cities of Arnhem and Groningen, where the units are called *eco's*. In among other places Utrecht subscriptions on biological vegetables are offered. An important problem when selling those subscriptions appears to be that people have to collect them. In LETS systems it is usually offered to bring the packet at home. Then the knife cuts at both sides: subscriptions on vegetables are getting more attractive and a new, simple method of earning points arises for the participants.

Some members bring in new subscribers, while others take round the packets. Others again help on the farm in busy times. There is even a lot more possibilities to integrate environment-friendly behavior in LETS systems. In Groningen they work with a voluntary levy on environment-unfriendly transactions. A new possibility of environment-friendly housekeeping arises if in the systems things like installing water-saving showerheads or flush-interrupters and the fixing of insulation material are offered. Gift vouchers could involve non-members, too. And make them members, of course.

LETS systems also offer very good possibilities for the integration of certain population groups. Among other places in Veghel and in Arnhem the LETS systems have been set up starting from the idea to offer the unemployed chances on work, appreciation, experience and contacts. A LETS system can be a springboard for the jobless. You can exercise your qualities in the system. And participants are building up a network, which increases the chance that someone offers a paid job on a good day. This way someone who is involved in gardening within the LETS system, may get a job as a gardener outside the system. In the Amsterdam Noppes system starting businesses can hire an advisory agency.

LETS systems can also help very well to integrate newcomers and people of foreign origin in a village or neighborhood. In a number of systems there is the idea of doing something with refugees. That is an outstanding group that could be helped with LETS. Even when they are awaiting a decision on their residence permit and are not allowed to do any regular job, refugees can spend their time usefully within LETS. Even after this period LETS offer refugees the opportunity to make contacts and they provide them with some additional purchasing power.

The *buddy system* can prove its services here. In a buddy system every new member is coupled with another LETS member that stimulates and helps him or her. By working and trading within LETS new contacts arise and they can lead to next contacts on their turn. Moreover language courses are offered in most of the exchange circles.

*LETS turns out to be favorable for the use of the environment, integration of minorities and employment.*

Many LETSsystems strive, of course, towards an economy that is as local as possible. That means that the turnover must be as large as possible and that you must be able to do a lot with your local money. The Hague and Amsterdam are only a few examples where shops and businesses participate. In particular food co-operatives and natural food shops are usually willing to do so.

LETSystem can hook into the local discount cards that are given for free in various municipalities to people on the dole. A great many shops and business like to join in to such a project and they give cardholders a discount from 10 to 20 percent. For doing so provides them with extra customers.

A LETSystem fits excellently in such a municipal initiative. For instance, a LETSystem itself could issue such a card. Why should participating businesses not give a discount to LETS members as well? This does not only provide the shopkeeper with extra customers, but he can also receive in LETS points the discount in guilders. Such a shopkeeper may see this case at first as a cost item, but he will certainly think differently about it if appears that he can make use of these LETS points. If all kinds of jobs can be done for them, or if a nice LETS cleaning-up-and-brightening-up day is organized in which the shop and its neighborhood makes a clean sweep. Then the shopkeeper will notice that his LETS balance is really something worth and that is a good basis to ask him to accept a higher percentage in local money. Various systems abroad have made agreements with restaurants and cinemas to accept a large part of the payment in LETS points in the silent hours. The spare capacity that is used then will cost the entrepreneur just a little.

## **14.2 What can LETS do about the current economy?**

In *Bringing the Economy back home from the Market*<sup>45</sup> Ross Dobson quotes the writer Alan Watts. According to Watts the crisis of the Thirties was, freely translated, not so much tragical as absurd, for: "the same materials, the same factories, the same farms, the same people and the same capacities were available as the years before. There were heaps of food, goods and raw materials. And there was labor. But economy was paralyzed, because there was no money. That is just as absurd as to stop building houses, because you have run out of inches."

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<sup>45</sup> *Bringing the Economy back home from the Market*, Ross V.G. Dobson, Montreal, 1993.

This is the basis of LETS' success: where economy gets paralyzed, because there is no more money, a LETSsystem can grow and flourish. In many poor countries and poor regions where the official economy is badly functioning, LETS-like systems are flourishing.

A LETSsystem creates the possibility to make use of the services or goods that the others offer, exactly when you have no money to hire someone else. *Doing so LETS fill the emptiness that stays behind if the exchange means are sucked away from the community.* With LETS people can exchange and communicate locally with each other again. Thanks to this new possibility people develop forms of production and service that in the official money world are not obvious.

In chapter 8 we saw that a large part of the money that we spend on products from the capital-intensive branch, flows away through interest and profit payments to the moneylenders. When you buy a television, your money goes to Philips or Sony and to the banks and the shareholders. They may well be situated in New York or Tokyo.

The banks lend their money again and the shares are traded on the Stock Exchanges, and in a twinkling the money that you have spent is gone, changed into air in the balloon economy of the money and shares speculation. In this way most of the guilders and francs that you spend disappear nearly immediately from the local cycle and in this cycle a shortage arises all too easily. Especially in poor countries and poor neighborhoods a large group of people without money has come into being this way and people without money stop working for each other, even if they want to.

A local money system give people the possibility again to trade with each other, even when the official exchange medium is lacking. For it creates its own exchange medium. Moreover, local money cannot leak away, for outside the system it is not worth anything. So it must be spent in the community itself. Stagnation by the lack of exchange medium is not necessary.

*LETS offers people the possibility to trade with each other, even when the official exchange medium is lacking*

### **14.3 LETS and interest**

Demanding interest within LETS is nearly impossible. For everyone can, if it were, create his own LETS points. Why would you borrow them from an other at interest costs, when you can be in the red without any costs? And if no one needs the points of an other person, no one can ask interest for lending his points.

Moreover, what reason would someone have to ask interest?

In LETS money has another meaning than in the formal economy. Money in a LETSsystem is no longer the good that is desired by everyone and that has value in itself. It has no value outside the system and everyone can use what he needs. Nobody needs to make a stock of it. LETS points are merely an exchange medium,

an instrument to bring about transaction. An instrument that can be used by everyone when it suits, without preventing others from making use of it at the same time.

Even when people are far in the red, they are seldom sensitive to an offer to borrow points at an interest. If there is a good reason for being in the red, the system will accept it. The participants trust on it that it will turn out right and eventually they are the ones who decide upon how far someone can be in the red. They simply do this by selling or not selling to someone like that. As long as they do so nothing is wrong. And this will certainly be the case when there is the trust that someone will redeem his debts in the end, or when there is a good reason accepted by everyone to be so far in the red.

Only someone who is far in the red without the permission of the other members, can really need to borrow points from someone. For then the other members might not want to sell to him anymore and allow him any further credit. Someone like that might be prepared to pay interest. But who wants to lend to someone like that? Evidently, no one has any trust that he will ever do something in return. Why would someone who wants to receive interest for his points, gamble on this?

*Because LETS points are a pure exchange medium, no interest payments take place in a LETSsystem.*

In addition to this: if the system agrees upon it that interest is undesirable, someone who wants to receive interest for his borrowed points has no means at all to extort this interest payment from the borrower. You could argue that you *can* prohibit interest in a LETSsystem. For the owner of LETS points cannot make the system stagnate by keeping those points.

Because there are no interest payments in the LETSsystem, the disadvantages of interest that we came across in the first chapters are not present. The most important thing is that in a LETSsystem the exchange medium cannot disappear from the circulation. As soon as the participants understand how LETS work, there is always sufficient purchasing power within the system.

#### **14.4 LETS and the development of technique**

The profit compulsion dominates society. Renewal will only arise if it yields enough profit. It is true, technology has developed itself enormously under the influence of profit compulsion, but only in certain direction. This way we have got strange enough rather less than more time. At the same time we can think out a great many useful renewals that has not got any chance.

LETS can bring about a renewal in this field as well. A renewal that doesn't get under way in the current economy. A technology can arise that does the things *we do not like to do ourselves*. A technology that does the work that remains undone, if, as it is the intention in LETS, people offer as much as possible work they like to do.

This is a challenge for developing another sort of technology. A 'simple' technology, a technology that is useful for the 'common' man and woman and that fills up the hole between 'offering what you like' and 'asking what you need'. In various places people are looking for such types of technology that link up with the needs of local exchange circles. The firm *Demotech* in Dieren, for instance, developed a water pump that can be made of simple materials (rope and bamboo tubes). With these tubes even water that is tens of meters deep can be pumped up. At the moment they are busy with a simple system for building houses cheaply.

*LETS can contribute towards to the development of a technology that serves the people more directly without an increase in the dependency on economy, energy etc.*

#### **14.5 LETS and the environment**

Local exchange circles offer chances to groups that now are still economically inactive. That is splendid, but doesn't it mean extra economic activity? And is all this extra economic activity not done at the cost of the quality of our natural surroundings?

You might think so, and perhaps it sometime is. But at the same time LETS give a new impulse to responsibly handling the environment. In the case of LETS you sooner think of re-use and reparation than of production of brand-new luxury goods. Within LETS services and second-hand goods are usually offered and because labor has another value than in the regular economy, it becomes more attractive to repair pieces of apparatus and utensils than to replace them by new ones. This yields only environmental *profit*. Less is thrown away, and less raw materials and energy are used and so the environment is saved.

Moreover the participants are often becoming more conscious of their consumption pattern and they are going to pay more attention to the durability of products. This way an interaction of increasing offer and increasing interest in re-use, environment-friendly services and other environment-saving matters is arising.

Besides, the trade in LETS is local by definition. For outside the system the exchange medium is worth nothing. LETS create a local market of buyers and sellers and strengthen communication on a local level, by which the need for long distance transports decreases. So the LETS concept is the contrary of the space and energy eating economy of The Netherlands, country of distribution, which hauls raw materials, half-finished products and finished products all over the world. If you think of it that raw materials for many manufactured desserts must travel about 1400 kilometers before that they end up on our plates, you will clearly see the environmental advantage of a LETS system that gets ingredients and capacities from its own neighborhood.

Ever more local money systems directly support ecological initiatives like second-hand shops, ecological shops and subscriptions on vegetables. This, too, means, of course, less use of natural resources and environmental profit.

If eventually LETS should be a considerable part of the economy, than a very important environmental advantage arises, because in the LETSsystem no concentration of wealth takes place. A guilder or a franc spent in a LETSsystem does *not* end up with shareholders and moneylenders and is under the 'obligation' to be invested in new production means, new products and further growth. This way LETS reduces the concentration of capital by which the growth is stimulated.

So the environmental balance of local exchange seems to be very positive in general. But there is snake in the grass. For participants in LETS soon have 'normal' money left. What do they spend it on? It will not be used readily for services or second-hand goods. The barber, the African dancing course and the second-hand lounge suite are all bought within the system. The possibilities that are then still open are legion: the one person will choose an extra time at a restaurant where you can pay half the price in local units, another person starts to work less. And another person again will spend the regular money that he has left over on a flying holiday to Timbuktu. Hopefully, the changed attitude of people in LETSsystems towards the environment will be reflected in this.

#### **14.6 LETS and change**

In how far can LETSsystems now contribute towards changes in society? Of course, for a part we must guess at this, but a fact is that local systems help to build a cultural change in which there is another appreciation of goods and services. Because LETS is especially good at attuning mutual help, also a change of the life and consumption pattern towards non-material matters is self-evident. Especially the social relations are flourishing in many LETSsystems, while often people are also working on their spiritual development. This can be an important step towards another kind of society.

It is also important that LETSsystems contribute towards a climate focused on change, a climate in which social and cultural change can arise relatively easily. Undeniably, great changes are needed in our society. Local circles give groups of people new possibilities and moreover they form one by one the core of a yet unknown renewal.

Exactly because many of these groups have an identity wholly of their own and experiment in an own direction, there is the chance they will find a new approach.

*LETSsystems form a starting-point for further changes in society.*

## Chapter 15

### The *Noppes* experiment

The first LETSystem in the Netherlands started in 1993. In August of that year Strohm sent people to England to observe how LETSystems worked in practice. It was a small trip with great consequences. We spoke among other people with Liz Shephard of LETSlink UK and with Michael Linton, one of the founders of LETS, who was setting up an experiment in Manchester at that moment. Brimful of energy and enthusiasm we came back to apply the knowledge we had picked up in England. This way in Amsterdam arose the first LETSystem in the Netherlands, which could serve as an example of how a LETSystem can develop itself.

But *Noppes* is more than this, for Strohm experiments in Amsterdam with a much more elaborate form of local economy: a LETSystem for private persons and in interaction with this also a separate barter system for companies.

#### 15.1 The concise history of *Noppes*

On 3rd November 1993 in Amsterdam *Noppes* was founded. This took place at an information evening where storyteller Willem de Ridder stole the hearts of those present with an arduous argument on local economy and we told about our experiences in England. Twelve of the thirty visitors were so enthusiastic that they decided to set up a LETSystem on the spot.

In the early beginning *Noppes* consisted of not much more than the circle of friends of the twelve founders. Now *Noppes* is a flourishing system with a professional staff, a firm administration, exchange mediators, markets and a magazine that makes a good impression. Whereas in the first years *Noppes* worked with a so-called buddy system (you could only join in if you were introduced by an existing member), now there is a tendency towards making as many inhabitants of Amsterdam as possible member and the organization is adapted to this. There are contacts with social centers, churches and re-use centers. Arrangements have been made with fiscal authorities to give participating companies clarity and recently talks with the Social Security and with various employment agencies have been started. In the beginning of 1998 the office is located on 80 m<sup>2</sup> in two rooms of a former school building in Amsterdam Westerpark. There are more than 800 participants and with 50 new people a month there is rather much growth.

In the early years *Noppes* formed a homogenous group with many mutual relations. Participants were studying or had just finished college and inline roller skates were the favorite means of transport. The main activity consisted of parties, which were held once every few weeks in a night café owned by one of the members. Regular

meetings and the buddy system made that everyone had good contacts with several participants. This way Noppes started off with a sound basis. Soon there were about 80 members. But because of this the buddy system's borders came in sight.

We had more ambitious objectives in mind with Noppes and so the system was reformed into an open system. This way the number of participants could grow on steadily and apart from a few slumps trade grew as well. Many plans were worked out and all kinds of initiatives were taken to promote trade. On exchange markets participants sell their second-hand and homemade goods and barbers, bicycle repairers and massagists show what they offering in Noppes. Meetings are organized in social centers. And there is ever more active mediation between the participants. For not everyone takes up the phone just like that to react on an advertisement. By supporting participants in doing so trade can even grow more.

## **15.2 Limits offer security**

The explosive growth of the system also entailed problems: the social ties between the members weakened. Could you trust your fellow members? What if some participants only take from others and do nothing in return? Is this not detrimental to the other participants' trust in the system? And is trust in mutuality not indispensable for the system? "Why should I do something in return?", some active participants let out once. This way trade threatens to stagnate: if everyone is waiting for everyone, no-one is doing anything.

Not only members who are far in the red cause problems. Also members who are far in the black, so those who do a lot but ask too little, stagnate trade. For they do not give others the chance to do something in return. In an English system a pub proprietress was so far in the black that nearly all other members were in the red. Because the other members did not want to be further in the red, the mutual trade stagnated there completely.

To be ahead of such problems Noppes has developed a system of limits, in which you can be in the red or in the black dependent on your activities. As a new member you start, just like in any system, with an account with a zero balance. Besides you will get a starting limit of 200 *Noppes* (the system's exchange units, too, are called '*Noppes*'). This means that you cannot spend or earn more than 200 *Noppes* in the beginning. As soon as you start to trade, the limits will increase. You are allowed to be further in the black according as you earn more. The system is very simple: the *Noppes* administration counts all you income of the past 12 months and exactly that amount you are allowed to be in the red. In a similar way it counts all your expenses of the past 12 months to determine how much you are allowed to be in the red.

For instance: you are a new member and you sell something for 200 *Noppes*. Your balance is then 200 *Noppes* in the black. That is your limit: before you have spent something you are not allowed to earn more. If you subsequently spend 300 *Noppes* your balance decreases with 300 *Noppes* and you will be 100 *Noppes* in the red. Now your positive limit is not 200 *Noppes* but 300 *Noppes*. Your negative limit

remains to be 200 Noppes. If you subsequently earn 100 Noppes, then your balance is 0 and your negative limit, just like your positive one, remains 300 Noppes. Now you are allowed to be 300 Noppes in the red or in the black.

*Limits: the more you trade, the more you are allowed to trade*

So the more goods or services you trade with others, the larger your limits will be and the more Noppes you can earn or spend. That is reasonable, for by trading much you show that other members can trust you. Under normal conditions it is for active members nearly impossible to overstep their limits.

If you unexpectedly overstep your positive limit, you are to pay an *unused money tax*. Something like the liquidity levy on *Free Money*. This tax amounts to two percent per month on the part you are in the black. This tax goes to the Noppes fund. This fund supports social and environmental projects.

If you overstep your negative limit, the administration will contact you and help you to find jobs that will compensate the difference between your balance and your limit. If this does not succeed than the administration can compel you to hand in a signed guilder check. Of course, you will get it back as soon as you come above your negative limit again.

### **15.3 The Noppes experiment**

Strohalm has set up Noppes not only as a model LETSystem. It is also an experiment: we want to know what is maximally realizable with LETS and look if it can be a starting-point for a local economy that is as complete as possible. Such a local economy must not only enable as much people as possible to develop their qualities and offer them to their fellow-citizens. Also more fundamental necessities of life must be obtainable within the system. So not only foot massage and guitar lessons, but also bread and butter. Also restaurants, soccer matches, cinema visits and subscriptions of vegetables. For this reason also small companies must get a place in such a system.

Companies want more certainty, more service than private persons. In practice the LETSystems appeared to offer this insufficiently. The commercial counterpart of LETS, the barter circle, is much more suitable for this.

Now Strohalm is trying in Amsterdam to combine Noppes, a strong LETSystem that is focussed on private persons, with a barter circle for companies.

If you wish to combine a LETSystem with a barter circle, you must prevent the system from getting out of balance. By nature private persons have a great interest in the supply of companies. Companies do not find supply from the LETS participants suitable just like that. Very soon the companies obtain because of this a positive balance and the private persons a balance that is mainly negative.

This is an unnatural proportion. Companies should invest. For them credit is important and to be in the red is very natural. Companies will not feel like giving credit to private persons and want certainty about the value of their claim. If their balance is getting more positive, they will offer ever less for Noppes.

Private persons prefer to be a little in the black, they like to save some extra money. If they are mainly in the red, they do not want to buy anything from the other members for fear of getting further in the red. This way the mutual trade between private persons stagnates.

In the *Noppes experiment* it is researched how this problem can be solved. In the first instance the two circuits will be kept separated for that purpose. There is a LETS for private persons and there will be a barter circle for companies. The data of both systems will be recorded in one administration with the same exchange unit. LETS is to obtain a strongly social character, while the barter circle is purely commercial. Barter transactions are mediated very actively, just like in any other barter circle. Subsequently we will link these two systems by means of employment agencies. We have found several of them prepared to mediate to let people from the LETS system work within the barter circle. In doing so these employees earn Noppes on their LETS account, while the company simply pays the Noppes via his barter account. In this way the barter circle will be in the red in the LETS system. If in doing so a certain limit has been reached, the Noppes administration will give the companies permission to charge a certain percentage of their prices in Noppes. The administration chooses a percentage that causes that the barter system as a whole will ever be a little in the red.

If the system functions, as they go along LETS members can receive ever more services and products of companies completely or partly in Noppes. As a member you know now for sure that you can spend your Noppes well. Your beer, your organic products, your printings and your hot meal at lunch break, you can pay for them in Noppes for quite a part. The mutual trade between the members is also promoted this way. For everyone will be a few hundred Noppes in the black on an average and we do not need to fear to buy from each other.

Also for companies this is a good deal: they receive, as it were, a free credit from private persons and get the chance to use their spare capacity better. This way an optimal mix arises for everyone and it will positively contribute towards the local community. The inhabitants of Amsterdam can do varied jobs in the Noppes system, meet new people and have new experiences.

#### **15.4 More pleasant neighborhoods**

Much of the supply and demand within a LETS system occurs on street or neighborhood level. If an aged woman wants to get her windows cleaned, she likes to have someone from her own street. And if you want half a bread, you are of course not going to bike for half an hour. LETS systems work for most cases fine, if they stay relatively small.

In that case it can also play its social role best. The number of members should not be too large. You should meet each other regularly. It seems that in a city three hundred is the ideal number of members. However, some supply requires a much greater outlet. You want to spread a subscription on vegetables over much more people. People are willing to look for a goldsmith a somewhat longer time and you like to buy a second-hand lounge suite from someone three neighborhoods away, if nobody happens to have it on sale in your own neighborhood. To be significant for companies, the system ought to be much larger: at least thousand and rather about ten thousand members. We from Noppes have thought about how we can give priority to the neighborhood, while all interesting trade between the neighborhoods is still going on. It is a good possibility to spit up a neighborhood from the city's system, as soon as there is a sufficient number of people living in one neighborhood. This neighborhood subsystem keeps using the same central administration and the same exchange unit. So members can also trade with members from other subsystems, and buy from companies elsewhere. The people from this neighborhood, however, receive their own magazine with the supply and demand that are available there, such as the baby-sitter and the window cleaner. In a separate part of the magazine you can find the supply with a more 'urban' character. There the Rolls Royce for your wedding is on offer, also the goldsmith etc. This way we can combine the small-scale advantages with the urban ones.

## Chapter 16

### The Community-Supported Agriculture (CSA) associations

#### 16.1 CSA: in search of an alternative in agriculture

It is no news that modern agriculture puts a great burden on nature and the environment. An average farming business uses many raw materials and much energy, among other things concentrates and chemical fertilizers. The raw materials are usually imported from the South. There erosion and the formation of deserts appear, while here there is a manure problem. Too much manure is spread over too little a surface. In addition to this modern agriculture is by its genetic uniformity little prepared for plant diseases, insect pests and climatological changes. Because of this it is increasingly dependent on chemical herbicides. Together with waste matter they form a great environmental problem.

Modern agriculture does not know ecological problems only. It also offers most of the farmers ever less perspective and satisfaction. They are, as it were, taken hostage by their loan bank and are at the mercy of the world market. Many farming businesses are at the brink of a bankruptcy. Every day in the Netherlands on an average eight businesses close their barn doors, because they cannot cope with the free market's economic violence. These are all farms that have been in family possession and produced food for the population for centuries. To keep their heads above water the farmers are forced to produce ever more intensively and on an ever larger scale. They become each other's competitor and push each other out of their fields. Quality of production is no longer on the first place. Because of the long chain of trade between the farmer and the consumer the contact between them has also become minimal. So it is hard for the consumer to feel involved in the farmer's problems and the farmer does not know the desires of the consumer. Two completely separate ways of thought and experience come into being there.

A less large-scale, local and organic agricultural system offers more perspective, for both the farmer and nature and the environment. Such a system produces with respect for nature, the environment, man and animal. Moreover, in such a system producer and consumer are interconnected. That is also in the interest of the consumer. Only this way he or she will obtain again a relation with the ground on which his or her food grows and grip on the quality and the safety of his/her food. It is also better for society. It is less dependent on the whims of the world market. Eventually farmers reap profit from it, for they are certain of their sales and their income and are no longer producing for a surplus market. They are going to see again for whom they are producing.

So many farmers do want to enter into less intensive and biological production methods. Yet, it hardly comes to anything of this. This is caused on the one hand by the huge debt burdens with the bank that forces the farmers to maximize their production and on the other hand by sales and price problems with organic agricultural products. Often there is also fear for the unknown.

Yet, there is a potential market for organic food products. There are many consumers who would like to buy organic products, but do not do so. Either because they are too expensive or they are hard to get. This leads to it that the farmer will make the change less quickly. Moreover, that leads to it that organic products are harder to get and are also more expensive by scale disadvantages. And this way we end up in the middle of a vicious circle.

<i>CSA: farmer and consumer united</i>	
<b>January</b>	<i>farmer and consumer circle determine together the cultivation plan and the income of the farmer</i>
<b>spring/summer</b>	<i>consumers help in busy times; directly after the harvest consumers freeze in fresh food</i>
<b>fall</b>	<i>evaluation of the season</i>
<b>throughout the year</b>	<i>consumers get fresh food</i>

One way to break through this vicious circle is to unite farmers and consumers in a common agricultural business, the so-called CSA. In such an association a farmer comes to a socio-economic agreement with a group of people who want to be involved in the farm. These people, the association members, support the farmer in his striving for the production of first-rate organic or bio-dynamical products, with both their money and their enthusiasm. In exchange for this the farmer gives all the food of his farm to the members.

In the seventies the CSA concept has arisen in Germany and Switzerland and then it spread to the United States. Since 1996 the first CSA's have arisen in the Netherlands. Strohalm is the central support center for them.

The Dutch term for CSA is *Pergola*. A pergola is a wooden framework that offers structure, support and protection to climbing garden plants. A *Pergola* association wants to offer the same to agricultural businesses that are striving for a socio-economic structure with a perspective for the future.

## 16.2 The practice of the CSA

There are no hard and fast rules for setting up and implementing a CSA. Nevertheless, there are four basic principles that an association must meet, if it wants to be called a CSA. These basic principle are: an open book-keeping, common yield and risk sharing, common price-fixing and common forming of opinions.

Just like LETSystems every CSA will have a different look as to management and character. However, in general it counts that in a CSA the farmer comes to an agreement with a group of consumers. Together they form an association and the association members support the farmer with both money and labor. In exchange of this the farmer divides the produced food over the members. The occupational risks are bom by both the farmer and the members. In addition to this the members have a say in the management. Together with the farmer they determine the cultivation plan

and the budget. The management and the income of the farmer are determined at the beginning of the year. The money is divided over the members. Every member pays his or her share of the costs to the association without regard to the harvest of that year.

A CSA restores the contact between the producer and the consumer. The consumer learns all what is necessary for the cultivation of food, because of which the involvement in this process is increased. The farmer is ensured of an income and can focus his attention completely on the quality of the production.

### **16.3 Community-supported agriculture in Massachusetts<sup>46</sup>**

By coincidence Robyn van En became one of those who introduced CSA's in the United States. When in 1983 she moved to Great Barrington, Massachusetts, she bought a division of the unused dairy cattle-breeder. For two years they grew organic food on a small part of the land. Most of what they grew they sold to a number of local families who bought their food collectively. It is true, in doing so her sales were guaranteed, but all the work and the financial risks remained. So there was no possibility of growing. "I knew I could do better than this", she told. "A co-operation would enable people to combine their success their capacities, expertise and aids to their mutual advantage. And at the same time it would bring together the people who produced the food and those who ate it."

In 1984 she met Jan Vandertuin, who told her about the CSA's that he had seen in Switzerland. He had helped in setting up a system near Zurich, where vegetables were produced for 125 participating families and milk for a few more. Because neither Vandertuin nor Van En had enough experience in horticulture to start a CSA themselves, it took more than a year before their plan was realised.

The missing link came when Hugh Radcliffe appeared on the stage, he was an experienced bio-dynamical horticulturist and former research biologist. In the fall of 1985 he rented about seven and half acres from Van En. They divided the expected yield of the common market garden that Radcliffe had in mind over thirty packets and offered them on sale beforehand. Each packet would be large enough to feed two to three people throughout the year. Besides, they offered thirty more packets of winter vegetables to people who grew their own products in summer.

They spread the harvest through various points of distribution in the region. The total costs were estimated at 21,000 US dollars, what boiled down to 557 dollars per complete packet and 140 dollar per packet of winter vegetables. They asked participants to contribute also two days of work and to accept that the final price of the packet could vary a little. They also asked them to pay their packets in advance, if they were able to do so.

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<sup>46</sup> From: Short Circuit, strengthening local economies for security in an unstable world, Richard Douthwaite, The Lilliput Press, Dublin, 1996.

The farmers sold most of the packets without any problem. The expected price for 43 weeks of fresh and organic vegetables was roughly 13 dollars a week. That was less than the retail price.

The next season they offered 55 packets for the whole season for 596 dollars each and twenty packets of winter vegetables for 160 dollars. The projects obtained in doing so a total income of 36,000 dollars. Eighty percent of this was spent on wages. Now Van En has a full-time job in promoting the CSA concept and at the end of 1995 only in the USA there were 600 of such community-supported agricultural and horticultural businesses.

*The practice of CSA: agreement between farmer and consumers on management, production and sales, and financial support.*

#### **16.4 Buschberghof: community-supported agriculture in Germany<sup>47</sup>**

An other inspiring example is the *Buschberghof*, a farm in Fuhlenhagen, about thirty kilometres east of Hamburg. When in the fifties and the sixties food prices in Germany dropped sharply in comparison with the wages, for farmer Carl-August Loss it became ever harder to pay his workers. Just like all farmers he initially tried to cut his costs by mechanisation and for this reason, just like all farmers, he contracted a loan from the bank in order to buy the necessary agricultural machinery. Each year, however, he got further into debts and he realized that, if he went on this way, he would go bankrupt and loose the farm that his family owned since the sixteenth century. In 1968 he met Trauger Groh, a farmer whose land had been bought by a military airfield. Groh had some money to make a re-investment, and he did so in Loss' business. With this money a cow stable, a diary factory with a flat on top, a mill and a bakery were built.

In 1987 both families set up an *economic association for the care of plants, animals and people*. Each year the farm was to estimate the costs of the coming year and the participating families were to pay collectively. The participants owned all what was produced at the farm.

In the first year a total of 195 people participated. That was not sufficient to buy the entire production of the farm. A part of it was still sold through the old channels. The next year already 321 people participated and all other sales channels had to be closed down. Each family itself determined how much it could afford to make a monthly payment in support of the farm, then it paid this to the association's treasurer and it could order anything it needed. This system is still in operation. "No abuse of it in any way has ever been made", says Wolfgang Stränz, one of the participants. "For instance, no one has ever ordered more than the household needed and what remained was sold or given away. We have organized ourselves in groups of eight or nine families who live in the same part of Hamburg and take turns in making orders

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<sup>47</sup>From: Short Circuit, strengthening local economies for security in an unstable world, Richard Douthwaite, The Lilliput Press, Dublin, 1996.

and collecting the contributions. If someone abuses the system, everyone in the group would know it immediately. “

In 1995 the budget for the farm was 500,000 mark (about 250,000 US dollars). With ninety participating families the average contribution amounted to nearly 5500 mark. How much did the Stränz family receive for its contribution? “In the supermarket we buy tea, coffee, beer, salt and pepper and rice. As long as the harvest of the farm is not here yet, we are eating Canary Island tomatoes. And each Sunday I go to the baker for warm, white rolls. All the other products come from the farm. The diversity we get here is enormous. They have nineteen different kinds of bread, and for instance seven kinds of cheese.”

Wheat, barley, oats and rye are stored in one of the barns on the old farmyard of farmer Loss in order to be processed in the mill later. The bakery is nearby. The large wood-fired furnace is still hot from three days ago. In an other barn someone is repairing agricultural implements. The pigs are enjoying their carrots in a stable farther from the road. Stränz is unloading wooden crates that he brought with him. He leaves behind an order that he will collect after four days, and he drives to the main building where are the hay barn, cow stables and the milk factory. The farm has a herd of twenty cows that belong to a regional, red-colored race. The central building is surrounded by a garden with an orchard next to it. The kitchen garden is below in the field.

The association members feel strongly involved in everything that is going on at the farm, says Stränz. Every group elects one of its members to attend the monthly meeting. Each spring and each summer many people visit the farm and some members work there one or more weeks in the summer. To provide the farmers with a good income when they are pensioners, the members contribute towards a pension fund. They also build up a fund to make new investments.

## **16.5 Conclusion**

CSA makes possible agricultural production on a small scale in circumstances in which this would otherwise be impossible. For it takes away two intermediate steps from the production-consumption chain: the wholesale trade and the retailer.

In addition to this savings are made on transport and packing. Moreover, CSA offers the farmer more satisfaction than producing for unknown consumers does.

Timothy Laird writes in the introduction to his study of 83 CSA's in North America<sup>48</sup>: community-supported agriculture tries to couple people to the land and farmers to the people who eat the food they grow. A CSA farm does not grow food for sale, but for the community.” For that reason the movement is one that is focused on solidarity between people mutually and between people and their surroundings. Sixty-three

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<sup>48</sup>Community-Supported Agriculture: A Study of an Emerging Agricultural Alternative, Timothy Laird, Graduate College, University of Vermont, 1995.

percent of the farmers that were interviewed by Laird found exactly this aspect the most attractive one of their business. Only 30% mentioned the CSA's financial stability, which you would expect that the farmer are the most enthusiastic about. The same percentage mentioned as a profit the fact that they are enabled to grow organic food.

More than half of the farmers said that support from the community is the critical factor in their business' success. One of them told Laird that a CSA needs a well-educated and involved group of people that see the whole picture and are not only working for themselves. Others said that the best way to set up such a group was to develop the members' feeling of collective ownership.

*CSA makes organic agriculture possible in circumstances in which this otherwise would not be possible.*

It may be clear that a CSA stimulates local development. The association members do not live far from the farm. So the CSA is an example of a local socio-economic system based on co-operation and mutuality. In this aspect it may be compared with a LETSsystem, with all the advantages that also count for a LETSsystem. So Strohalm dedicates itself to the development of CSA's in the Netherlands. We hope that CSA will become as successful as the LETSsystems.

## Chapter 17

### How local authorities can strengthen the local economy

The municipalities have the best opportunities for initiatives in the field of money. In particular local authorities are saddled with the consequences of the money leakage and the attractiveness of the CIP. To ensure the interest of a vivid local community, they are almost compelled to offer a counterbalance to economic scale enlargement. The best way to do so is by strengthening the local economy. And they also have the possibilities to do so.

Municipal boards do not need to stand by helplessly when ever more people are losing their jobs and when the social structure is falling apart. In this chapter we shall sketch out some examples of how local authorities are making or have made their city, city quarter or village livable again.

#### 17. 1 Where must a local initiative hook into?

An authority that wants to strengthen the local economy of a village, city or city quarter, will first have to find an answer to the question in which way it is weakened. Let us try to answer this question, making use of the scheme that we made in Part II. In this schematic illustration of the money flows, the bottlenecks are indicated with a digit.

1. stands for the shortage of exchange means that is caused by the shortage of money.
2. stands for the preference of the CIP's products above local goods and services. Because of this the local shopkeepers and independent professionals are ousted by multiple stores and throwaway products and the money will disappear from the community.
3. reminds us of money being used to provide extra money as much as is possible. Investment must compete with the super profits being made in the speculative circuit. Few investments within the community can cope with this competition.
4. stands for the money creation that takes place at an interest. Although in the first instance money is added to the circulation, the interest causes that the leakage is getting larger very soon, and in doing so also the pressure on the money circulating within the community in order to find more profitable positions. Who wants to strengthen the community must try to reduce this pressure.

*The local economy is weakened on a number of specific points. A local authority can hook into those points and strengthen the local economy this way.*

This leads to the next questions:

- a) How can we keep the local exchange going when insufficient money is present?
- b) How can we use the money that is circulating within the community for mutual exchange more often? Or: how can we keep it longer or let it circulate faster?
- c) How can we take care that money that is locally earned is also locally invested?

- d) How can we uncouple a section of the local economy from the competition of the speculative circuit, so that investments do not need to meet the demands of profit prevailing there? In other words: how can we take care that what is economically profitable is actually executed and no unnecessary unemployment arises?
- e) How can we return the proceeds of the money creation to the local community?

## 17.2 Some examples from practice

One of the most important examples of what a municipal board can do is the history of Wörgl in the thirties, which we have described in chapter 7. We saw that in this town the municipal board effectively brought local money into circulation and in doing so reduced unemployment. This is an excellent solution in a situation of a large shortage of exchange means in the economy as a whole, for instance when the banks are bringing too little money into circulation while trying to keep the Euro 'strong'.

A few more examples:

In the eighties the Argentinian federal state of Salta paid its civil servants in self-issued money. This occurred in a time of enormous inflation. The federal authorities guaranteed that this local money could be exchanged one to one for the national currency and connected a lottery to the local money at the same time. In doing so it became so attractive that exchanging hardly took place. Only people that did business outside the federal state had a reason to exchange, for the rest everyone used the local money.

*Examples show us that local alternatives in the field of money offer interesting possibilities.*

In the Brazilian City of Curitiba a very interesting experiment has been taking place for years. Bernard Lietaer writes about this<sup>49</sup>:

"When in 1973 Jaime Lerner became mayor of the Brazilian City of Curitiba, we had to cope with a troublesome waste problem. The majority of the 500,000 inhabitants lived in slums that were built in such a random way that the refuse lorries could not enter. The accumulation of waste attracted vermin, because of which diseases spread with an alarming speed. The classical solution would have been a social program to try cleaning up the rubbish. But Lerner did not have this option, because he simply hadn't any funds available for this. The mayor had to find an other solution and then came up with the idea to give people tickets for public transport when they had offered their assorted waste at the recycling point around the slums. For organic waste that was composted for use as manure by farmers people received vouchers that they could exchange for food. The program was running spectacularly: kids, who soon learned to distinguish various kinds of products that could be re-used, combed out the slums.

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<sup>49</sup> Turbogeld - Nu uitgeven voor de toekomst, Bernard Lietaer, Source: number 1, 1996.

The inhabitants could travel by public transport to the city center, where the jobs were. The extra buses and gas could be paid from the sales of the assorted waste to the glass, paper and metal factories. Even 'normal' money was saved, because fewer refuse lorries were needed to collect the waste. Not to speak of the savings as a consequence of fewer ill people and a more efficient labor market.

Nowadays Curitiba is clean, prosperous and autonomous. It is the only city in Brazil that does not take money from the government. The public transport is excellent and the city has a popular mayor who has been re-elected again and again. Perhaps the most important thing is: there is a strong feeling of solidarity and pride that did not exist before.

Another interesting example of what local authorities can do we can find on the British Isle of Guernsey. There the British pound is the "legal tender". On Guernsey, however, most payments are made with the so-called *Guernsey pounds*. Guernsey pounds can only be used on the island. They have exactly the same value as the British pound and are accepted everywhere on the island. When you arrive on the island, then you exchange your British pounds for Guernsey pounds and what is left over when you leave you can exchange again. Shopkeepers from Guernsey pay the wholesale trade in England through the bank, which register the Guernsey pounds as British pounds.

It seems to be folklore, and it originates from the nineteenth century. But in the mean time it really is an extremely effective and refined system, which everyone can take profit from. The British pounds exchanged by tourists and the islanders come into the hands of the island government that issues in exchange for this its own notes that hardly bring along any costs for it. The government deposits the British pound in a bank and there it yields interest. These interest proceeds are enough to finance over one-third of the island's budget. Because the islanders know the advantage, they all accept the Guernsey pounds.

In the sixties interestfree community banks were founded in thousands of villages in Egypt under the influence of dr. All Nagar. This may be the only example of really interest-free banks in the Islamic world. Villagers saved in these local banks. The saving money was invested in local businesses and the villagers received a right on profit payments. So they knew that their saving money would only yield something if these businesses were doing well. So they helped as much as possible and rather bought locally than in the city. This way a win-win situation came about, in which the saving money yielded profit and strengthened the community at the same time. These banks were prospering, until the government decided to nationalize them. Management functions became a bonus for civil servants. This meant the end of this success story.

Of course, a local authority could set up such a project in our country as well. You could even work it out further: a city's inhabitants could be asked to join in a

campaign '*save and invest locally*'. Every time when a participant buys at a shop in which the money has been invested, he will receive a right on a profit payment.

Above examples show us that local alternatives in the field of money can offer us interesting possibilities, provided that there are well organized. In the next sections we shall work out a few possibilities with which Strohalm wants to get busy. To be clear: these examples are not yet existing, but only outlines of how above experiences might be adapted in the present-day practice. Such an outline is always coarse. In practice such a model will have to be shaped according to the specific circumstances.

### **17.3 Opportunities for the unemployed**

A first experiment that we want to set up is directed on the re-involvement in society of people who are put aside in the regular economy. Who is unable to work or unemployed has often still a whole lot to offer. 'The market' does, however, not make use of this possibility, for in comparison with the CIP you are insufficiently productive and moreover there is no money to link the products on offer mutually. A local exchange system does give room to use the untapped capacities. A municipal board can give an extra stimulus to this by offering people who are put aside a guaranteed income in regular money in the first instance.

To organize this a foundation can be called into life. With the aid of a governmental subsidy this foundation provides the participants with a guaranteed income. The participants work in the local system, for instance a LETSsystem, and earn local units in doing so. In principle these units benefit the foundation. It gives part of the units back to the participants as a kind of extra allowance, so that they can earn somewhat extra with their participation. The foundation offers them the remainder of units for sales. The participants can buy them back for a part of their guaranteed income. The exchange course is determined by mutual agreement.

Of course, the foundation can spend its local units itself by putting work for the local authorities out to contract. The more the experiment becomes solid, the more will be offered in local units. Then it will become ever more interesting for the participants to have extra local units instead of regular money. It is expected they will buy ever more local units and the exchange course will shift in the direction of one to one. As it goes along the foundation will create ever more work and will need ever fewer subsidies.

This model can excellently be used by social services that have to do with people who earn many LETS points besides their allowance. Mostly the social service in the Netherlands allows their clients to earn the first 3,000 points, but when you earn more than this it reduces the allowance with the equivalent of the amount above the 3,000 points. In our model it could claim instead of this an (increasing) percentage in LETS points in order to enable the client to buy back these points at a favorable exchange course. When the system has to offer sufficiently, this is favorable for all parties. For the client is less dependent on an allowance and the social service saves money.

This experiment's effects on the local economy can be far-reaching. The municipality now has every interest in making payable a large as possible part of the costs of living in local units, too. We can think of, for instance, all kinds of fixed costs that now can only be paid in guilders. The municipality could stimulate landlords to accept local units, it could raise this matter with the energy company etcetera.

For the better you can use local units, the more the exchange course nears one to one, so that the allowance gets less. To achieve this the municipality will have to care that landlords and the energy company, too, can spend their local units.

They can do so by accepting the units as a payment of local taxes. In this way local units get ever more value. Local shopkeeper and companies, too, will accept them, and consequently employees will also accept them as a part of their salary and etcetera.

The more that can be provided in local units, the more attractive it will be for everyone to join in. And the more attractive it will be to exchange a part of the allowance for local units. And the more people are working on this basis, the larger the offer of goods and services in the local system will be. And this way this system will become more attractive. Ever more companies will enter into this and the consequence of this is that it becomes even more useful for the people who are trying to take an initiative to leave the situation in which they are dependent on an allowance. The system is growing because it becomes more attractive, and it becomes more attractive because it is growing.

*The combination of a local exchange system with a guaranteed income can involve the unemployed in the local economy again and causes the arising of a system in which more circulates and which offers ever more possibilities.*

#### **17.4 once-only allowances and LETS**

There are still other ways in which a municipality can hook into a local LETS system. Suppose, a municipality gives to people who live of a minimum allowance a once-only allowance of 500 guilders. So far there is nothing new about it. It becomes more special when the municipality announces that next year such an extra allowance will be given to people who pay 500 local units in the municipality's LETS account in the course of the year. So clients are asked to do something back to receive such a bonus. They must join the LETS system and get in touch with the possibilities that LETS offers in the field of mutual help: the contact with new people and the creation of room for their own initiative.

The municipality gives the incoming units to the LETS system, which can use it to strengthen trade, for instance by hiring mediators or organizing markets. This way the local economy gets a strong impetus, for if the people who are trying to earn the allowance are not the same as those who mediate or organize markets, then a chain of trade between those parties comes into being.

*A one-time allowance in LETS units gives the local economy a substantial impulse and it gives people with an allowance, with only their purchasing power, new contacts and opportunities.*

### **17.5 subsidy vouchers**

To strengthen the local government a local government can also make use of the subsidies that it grants. Then a part of the subsidies that are earmarked for local societies is not given directly to them, but in the shape of vouchers that are given to the citizens.

Societies and foundations will ask for the contribution and admission not only money but also an amount in vouchers. But not everyone makes equally much use of the subsidized institutions and many people will have vouchers left. These vouchers can be redistributed through mutual trade, but it is thinkable that local shopkeepers, too, will accept them. What can they win by doing this?

To start with, they themselves can spend the vouchers at the societies. They can also use them for improving their customer relations. "For every guilder you spend with us, you will receive a voucher", or "buy from me and for every ten guilders, I support society this and society that with a voucher".

Eventually societies always want to have vouchers they can exchange at the municipality. There are also enough people who can still use vouchers to spend them at the societies themselves. So there is also a demand for the vouchers and so they have value. When the confidence in this value is substantial enough, the shopkeepers can also use the vouchers as change and even as payment of other companies. Then the vouchers become means of payment. They return into the circulation, clients get them in their hands, they spend it elsewhere etc. And after a course of time the vouchers arrive at the societies, which keep them and exchange them for the official money.

If the municipality also gives an extra bonus to societies who do not hand them to it, but use them for purchases at local entrepreneurs, even the societies do not need to be the end of the circulation. Then the vouchers will start to function ever more and ever more effectively as a local means of exchange. Shopkeepers will accept an ever greater part of their prices in vouchers, so that the system will become more attractive. In this way a prosperous local exchange system can arise.

*The municipality can strengthen the local economy by giving to its citizens, instead of direct subsidies, value vouchers that can serve as an exchange medium, but can eventually be exchanged by societies for subsidy money.*

### **17.6 Circu's**

The idea of subsidy vouchers offers various possibilities for application.

Below we shall describe the rough outline of a stimulation plan that strengthens the social and society structure as well as the local economy. The municipality sets up this plan in close co-operation with the local retailers and the local societies.

The project starts as a regular voucher campaign of the local retailers. Businesses buy vouchers from a local bank, let us call them *circu's*, and give them to their customers, for instance when they purchase for more than a certain amount. These vouchers can be spent at all companies participating in the campaign. They make special offers in which the payment can be accepted in *circu's*. Participating companies use their spare capacity for this, shops sell their unsold stocks, installers acquire customers in quiet months, restaurants and cinemas entice people to the early hours or on Monday, Tuesday etc. In this way *circu's* return to the companies. They can give the earned *circu's* to customers again or they can sell them to the bank at a little loss.

Until now it is not more than a regular customer acquisition campaign, which does not need to cost the participating entrepreneurs very much. But we can extend the project. Now the *circu's* received by the customer are not meant for himself, but half of them are due to a local society. The *circu's* are no longer vouchers, but are registered as *air miles* (bonus points) on a chipcard. This card has a private part and a society part. The half of *circu's* obtained by the customer is registered on the private part and the other half on the society part. This way societies can save *circu's* by asking their members to order the card via them. Just like some people are saving their air miles for *Medicins Sans Frontières* (an international medical help organization). Now the municipality starts to play a role. For a part of its subsidy budget it buys *circu's* from the bank. It uses these *circu's* to subsidize the societies in proportion to the amount that the members have saved for their society. For instance, by doubling the amount saved by the members. So the more citizens are involved in a society and the more actively they are saving for this society, the more subsidy this society will receive.

*An even stronger stimulus of the local economy can be obtained by coupling the concept of subsidized value vouchers to a customer relations campaign by the local tradespeople.*

The societies can buy at the local retailers with these *circu's*. If desired, they can exchange the *circu's* for regular money at the same course as the retailers do, so with a slight loss.

Because now the municipality adds *circu's* to the circulation, the total trade and industry will soon receive more *circu's* than it returns to customers. Now businesses have various choices: they can spend the *circu's* at other local retailers, they may pay a part of the salaries with them and they can exchange them for regular money. If they do the last, they do turn in a part of the value. So this will not happen often and very soon a lively trade through *circu's* will take place.

## **17.7 LETS and jobs for the young**

A co-operation between a LETSystem and the municipal services that are engaged in jobs for the young also provides interesting possibilities. For instance, a project like the JWG (Plan for the provision of work for the young) together with the local LETSystem can ask the young to co-operate in a energy and water saving program at a basic salary in regular money. Then, within the JWG, the young receive a training for all kinds of loose saving program jobs: installing flush-interrupters, water saving showerheads, radiator foil etcetera. In doing so capable teachers and coaches can be looked for in the LETSystem.

Then members of the LETSystem can let project assistants make improvements in the field of water and energy saving at the payment of LETS points. The earned LETS points can partly be used for the organization and coaching of the project and furthermore be given as a bonus to the assistants. Because of this they are motivated to work extra hard.

*The local economy is getting stronger, if participants in municipal employment arrangements receive bonuses in LETS units per odd job, apart from a basis salary in money.*

Such a project becomes even more interesting for the LETSystem when it issues saving vouchers which you can give as a present to people even when they are out of the system. Then LETS members can give each other, friends and acquaintances a 'saving job' as a present. That is a nice way to make non-members familiar with LETS.

There is certainly a demand for such an offer. Many people like to do something for the environment. But all kinds of obstacles stand in the way of realizing those intentions. This project makes it more profitable and easier to invest environment-friendly.

### **17.8 Waste bonus**

For Strohalm Ireland we have designed a waste bonus project. We want to see if we can kill two birds with one stone: to realize a better presorted waste collection with the aid of a voucher system and to strengthen the local trade at the same time.

The project begins with rewarding people for providing presorted waste. In our design those people will not receive money, but vouchers. The subsidy earmarked for this will be lent to local businesses that will make environment-friendly investments. They can pay back this loan in money, but also (preferably) in vouchers. That means they will also accept the vouchers as a payment and so the vouchers will get value.

This way a cycle of vouchers arises, from the municipality to the citizens to the businesses and back again to the municipality. Because they can pay their money loans with them, the vouchers have real value for the businesses. Eventually everyone in the city will attach value to the vouchers for this reason. From that

moment on they can also be used to make all kinds of local transactions and in fact they function as a local means of exchange with all its advantages.

Of course, this same principle can also be applied to stimulate all kinds of other forms of environment-friendly behavior.

*The bonus system: subsidy money is lent to companies while vouchers are accepted as repayment of the loans. This way vouchers get value and they can be brought into circulation as a subsidy. A way to use money twice: as a loan and as a subsidy.*

### **17.9 The first practice**

These examples are only a tip of the iceberg of all what is possible. On a modest scale the first initiatives are already put into practice. An example is the LETS swop shop *Feijenoord* in the Dutch City of Rotterdam. This shop has been founded on an initiative of among others the *Stichting Vrijwilligerswerk Rotterdam* (the Rotterdam Voluntary Work Foundation) and *het Stedelijk Bureau Ander Werk* (the Municipal Bureau of Different Jobs). Strohalm has been involved in the swop shop as an advisor.

In the LETS swop shop people from the borough of Feijenoord can offer goods and services for sale and earn value points with these activities and with the value points they have earned they can 'buy' goods and services that are offered in the shop by others. The LETS swop shop Feijenoord mediates between the people's demand and offer and assists in determining the number of value points for a good or a service.

The swop shop co-operates with the Rotterdam LETSystem. Points of the LETSystem and those of the swop shop are mutually exchangeable.

*Exchange shop Feijenoord: direct mediation between supply and demand with sales at value points.*

#### **In conclusion:**

Such local money and voucher systems can mean a great deal to the local community. On the other hand we must not think easily about it. On paper they seem simpler than they are in practice. The design must be tailor-made to the local situation and there must be sufficient know-how to react creatively on the problems that are always arising. If we manage this, then we will have a perspective on a number of good model projects that may set the trend.

## Chapter 18

### A competitive banking method without interest

The renewal of the money system is possible in various ways as necessary. We have seen the possibilities offered to the government by a tax on liquidity. We have seen various possibilities that local authorities have available. And we have seen how LETSystems offer private persons an alternative for the current money. The missing link is an alternative within the banking business. Strohalm is developing such an alternative with the ASN Bank (*Algemene Spaarbank Nederland*). It is based on the Danish/Swedish JAK Banking, mentioned in chapter 4.

#### 18.1 Saving and borrowing according to the neighbor method

In the money world those who have money left over expect from those who borrow money from them that they pay interest on it. This entails all kinds of consequences that have been mentioned in this book before.

In daily life this happens in an entirely different way. If you borrow a packet of butter from your neighbors, they do not expect to get back more than this packet. The neighbors do not ask anything extra, but they do expect that they can borrow something from you if they need anything. This is a social way of borrowing. Let us call it the *neighbor method*. Can't the neighbor method be the basis of banking? And can't we ban interest in doing so?

*The neighbour method: who saves (interest-free), acquires the right to borrow (interest-free)*

This can indeed be done, and moreover on a businesslike basis. With people from the neighborhood or district, with colleagues and with friends and acquaintances we can lend money to each other through a bank adopting this neighbor method. Everyone saves in his own time and together we assemble our saving money. Then everyone can borrow a larger amount when this is necessary.

The neighbor method is based on mutuality. In its simplest form: if I can borrow something from you now, then you can borrow something from me later. If you save, others borrow money from you. Then you lay a claim on others to be able to borrow from them later on. Also the reverse is valid: if you borrow, others can lay a claim on you. Eventually those claims must be redeemed: you borrow from others what others have lent to you before.

The consequence of this method is, that you can only borrow money, but also that you must save money in other periods. Eventually just as much as you have borrowed. Then we can forget the whole interest story. For it is nonsense to pay

interest on a loan at one moment and to get back this interest on your saving balance in an other period. Thus we are creating an interest-free way of banking.

In Sweden and Denmark the *JAK method* was developed for such a way of banking. For many years this method has been successfully applied there. Strohalm has introduced it in the Netherlands and together with the ASN Bank it is founding the *ASN Interest-Free Fund*. This Interest-Free Fund works according to this method.

## **18.2 How does the *ASN Interest-Free Fund* work?**

How can this method be put into practice? It is important that every participant gets two accounts: one on which the money balance is registered and one on which the claims are registered in the shape of *mutuality points*.

### *The saving*

Mister Jansen starts to save. During the period he is saving, he makes his money available to other participants: for the fund lends it in his name. Therefore Mr. Jansen does not receive an compensation in money, but instead of this he is saving mutuality points and more points in accordance with the money he has lent and in accordance with the time he has lent it. A mutuality point stands for a fixed amount multiplied with the time that Mr. Jansen has made this amount available to others. That is a question of making an agreement on this. Thus we can agree upon it that an amount of hundred Euro that was on the money account of Mr. Jansen for one day, yields him one mutuality point. What Mr. Jansen is doing is *pre-saving*. The total of saved mutuality points we call the *pre-saving result*.

### *The borrowing*

At a certain moment Mr. Jansen needs money. And more than he has saved at that moment. So after he has withdrawn his saving balance, he will borrow money. His money balance will turn negative. He does not pay any interest on this (he does pay an once-only compensation of the costs), but he does pay mutuality points. As long as his money balance is negative, his balance of mutuality points is reduced with one point per 100 Euro per day. The total of mutuality points paid by Mr. Jansen is called the *borrowing results*.

### *The balance*

The other participants expect that when they have a need for it, they, too, can borrow. To guarantee this for everyone it is necessary that there is a balance between the borrowing and saving results of each single participant. In other words: in a certain period Mr. Jansen must have made just as much money available to the other participants as they have made available to him. The mutuality points balance of all participants must end on zero.

At the moment that Mr. Jansen starts to borrow, his mutuality points balance is positive by the previous saving period. Consequently this balance decreases and it keeps decreasing until he has paid his debts. From that moment on Mr. Jansen does not receive mutuality points and neither does he pay them. If all is well, his mutuality points balance is also zero: his borrowing results and his saving results are the same.

*Everyone has two accounts: one in money and one in mutuality points. Who saves money receives mutuality points and who borrows money pays them. In the long run both accounts have to have a zero balance.*

### *Transferable mutuality points*

For all participants there is the possibility to transfer the mutuality points to other participants.

### *Covering the expenses*

In the regular banking method a part of the interest is set apart as a cover for the expenses made by the bank. Also the ASN Interest-Free Fund makes expenses. Because no interest is charged, these expenses must be paid in an other way. Charging a once-only percentage on each loan that is contracted can do this. This percentage can be dependent on the loan's term, but it will remain a once-only one and it will be much lower than the interest to be paid usually.

## **18.3 How much are you allowed to borrow?**

In principle you are allowed to borrow as much money (and so to withdraw twice as much money in one time) as you have pre-saved.

We take a broad view on durability. It can concern both social and ecological durability. The ASN Bank and Strohalm will determine criteria that have to be met by the loans in order to be regarded as durable. For that matters the law of mutuality also applies to people that make use of the durability loan: their mutuality points balance, too, must end on zero. Because they have borrowed more than they have pre-saved, a negative mutuality points balance will remain after they have paid their debts. Their borrowing results are larger than their pre-saving results and they are obliged to balance them. They are doing so by *post-saving*: if the money loan is redeemed, still a period is to be saved in order to replenish the shortage of mutuality points.

*Who borrows for durable objectives is allowed to borrow more.*

Within the fund two loans can be distinguished:

1. The basis loan, for participants who use their loans for non-durable ends. The maximum loan is equal to the saving balance at the moment of the loan's

application. After payment of the loan the pre-*saving* results must be in balance with the saving results.

2. The durability loan, for participants who use their loan for durable ends. Herewith the borrowing results are not allowed to be higher than the pre-saving results. The maximum height of this loan is determined by the durability factor. Borrowers oblige themselves to a post-saving period in such a way that at the end the borrowing and saving results are in balance with each other.

#### **18.4 Various target groups**

The ASN Interest-free Fund is a complete alternative for the 'regular' banks. So it can also be used in various kinds of situations. As we are going along we intend to make this method useful for ever more targets and target groups. Of course, we hope that people who sympathize with Strohaln will take part in this initiative. But it is also attractive for many others.

##### *General Interest-Free Fund*

Within the general part of the fund we think we are able to address three target groups:

- People with ideological motives. These people have questions like: what happens with my money in the bank? and where does the interest I am paying, end? Also the arguments used by Strohaln against interest are important for these people.
- People with economic motives. For people who are dependent on the bank's credit or on other financial institutions, the financial advantage is a motive to participate in the ASN-Interest-Free Fund. To illustrate this : the interest paid by the consumers on products they pay in installments is about 20% at the moment.
- People with social motives. We expect that people will be charmed by the fund's underlying principle. "I lend something to you, then you will lend something to me later on" is for many a much more attractive starting-point than "I lend something to you and you will pay me for this".

An extra motive for participation can be the possibility for transferring mutuality points. For this possibility enables participants to offer mutuality points to, for instance, a school or a community center. The last ones can contract a large interest-free loan thanks to the mutuality points, so that projects that improve the neighborhood can be realized.

##### *Sun-and-Wind account*

Investments in durable energy installations by own-home owners often ask for a long preparation time. At first, an orientation phase takes place on a market unknown to many. After the owners have made a choice, they must make some preparations before they can install anything. This relatively long period prior to the real purchase

can be used to start saving for the investment to be done. If you do this within the ASN Interest-Free Fund, then it even becomes possible to borrow cheaply. Lower energy bills compensate possible post-saving obligations.

#### *Debt purging group*

In the Netherlands there is a large group of people who, for some reason or another, have large debts. This is a growing group. For many people of this group the situation is or feels hopeless, also by the interest burden that presses on their debts. An Interest-Free Fund that offers them the possibility to purge their debts would mean a way out.

#### *Islamic group*

In the Koran, just like in the Bible, asking for interest is considered to be a sin. In these times, too, many Muslims make heavy of this. In the Islamic community, however, a real interest-free bank has never gotten off to a good start. Here the ASN Interest-Free Fund can provide for a need.

*The ASN-Interest-free Fund can be used for all kinds of target groups. It contains among other things a Sun and Wind account, a debt repayment account and an Islamic account.*

#### *Study financing*

Now already many parents are saving for their children. When this happens within the ASN Interest-Free Fund, then it becomes possible for future students to borrow a certain amount without interest each month during their study. Payments and post-saving results come instead of the payment arrangement within the current study financing.

#### *Fund account*

There are in the Netherlands a number of funds that lend their money to charities at a low interest. It is attractive for those funds to let their money be controlled within the ASN Interest-Free Fund. It becomes even more attractive when those charities meet the durability criteria. Then they can offer higher loans to their target groups.

#### *Account for foundations and societies*

The ASN Interest-Free Fund can also be advantageous for foundations and societies that want to contract loans. Certainly if they convince their members or donors to save mutuality points for the organization. That would give them an opportunity to contract higher loans and so to realize projects planned before. We can think of sporting clubs, managers of play-gardens, schools, community centers, environmental organizations and churches.

### *Flight tax for companies*

In 1998 Strohm started with the project *Flight tax for companies* as an example of an *ecological tax*. In this project companies sign a contract in which they certify that they will pay voluntary tax on the air journeys they make. This tax amount is mainly available to the company itself in order to make an environment-friendly investment. The control of the flight tax could be done within the ASN Interest-Free Fund. This Fund offers companies the possibility to borrow an extra amount.

### **18.5 The long term**

Both for Strohm and the ASN Bank the most important motive to start experimenting with the ASN Interest-Free Fund is the ideology behind it and the perspective of a society based on a durable economy. But can such a fund really contribute towards a durable, interestfree society?

The ASN Interest-Free Fund has in its own not the power to grow into an interest-free banking system and for this reason it can never replace the current banking system. That is why for Strohm the ASN InterestFree Fund is just a step in the right direction. The ASN InterestFree Fund must show people that interest is not self-evident and that without interest, too, financial transactions are possible

This way the ASN Interest-Free Fund contributes towards a climate in which a completely interest-free banking system can get off to a good start.

Because an interestfree bank makes an advantageous offer to lenders/borrowers, it can grow spectacularly. If ever more borrowers apply to interestfree saving possibilities, ever fewer people within the regular banking system will want to lend. And ever less borrowers within the regular banking system will lead towards reduction of the demand for money and in so doing towards lower interest rates. In the long run interest will not longer be attractive to the lenders. Then an interest-free society will be within reach.

## Chapter 19

### Further plans for the future

Strohalm is determined to work further on alternatives for the money system. As long as the alternatives in practice are still marginal, we must search for renewals that could strengthen the movement. For that purpose there are many possibilities.

#### 19.1 Interlinking

LETSystems are remarkably successful and if the local authorities start to work on it many more possibilities will arise. One of the strongest points of many LETSystems is their small scale. Small scale in a world that is ever more large scale and more intransparent. LETSystems give something back to the human being that is searching for social solidarity, involvement with the environment and a more humane way of mutual trade. This is fine, but isn't here the threat of the strong point of LETS becoming a weak one? For with LETS we also want to offer a real alternative and turn into the direction of a different economy. Does the strictly local character of LETS not form an obstacle for this purpose?

In practice the local character of LETS means that all transactions that cannot take place within the local system will be settled in guilders. It is for instance hardly obvious to offer a holiday home in a local LETSystem. You had sooner rent a holiday home within a system elsewhere in the country or abroad. For that matter you should be a member of an other system and also have to trade within this other system. The alternative is that you pay with your own units. But then you should be able to exchange your local units. Exchanging between systems and so the shifting back and again of units may mean a break-through for the trade, but at the same time this is so much opposed to the local character, that it can also destroy LETS as a whole.

The crucial question is: how can we develop LETS further by trade between systems without affecting the attractiveness of its being local? At Strohalm we are researching how trade between the various LETSystem is possible with maintenance of the specific values of the separate LETSystems. Or: how can we make exchange of units between the various systems possible on a limited scale. This exchange between systems we call *Interlink*.

An Interlink system as Strohalm is setting up will need as prior conditions that the preference for local trade is maintained. It is obvious that we will not order our bread at the other side of the country through interlinking. Yet it is sensible to build in some guarantees that arrange what *can* take place on a local level, *does* take place on a local level. Only what is really sensible to purchase from far away through interlinking must be made possible. Else we will introduce with interlinking into our place again the distribution economy with all its energy and environment devouring transports that we precisely wanted to avoid with LETS.

In several places in the world Interlink methods are already being applied. Thus there is in Australia a national LETSystem as an addition to the local systems. Independent of their local membership people become a member of this national system and mainly use it for transactions outside their local system. In Manchester there is an other variant. There a number of LETSystems are coupled to each other in a special way. Every system maintains its own activities and character, but an umbrella organization executes among other things the administrative tasks of the local systems.

*To interlink: to make possible trade between systems without loosing the attractiveness of local trade.*

Strohalm researches the advantages and disadvantages of these methods. Besides this we ourselves try to develop an Interlink method in which local systems of a different kind, too, can join in: circu's, loko's, money such as in Wörgl and on Guernsey etc. This last example can become interesting if the consequences of the Euro will compel local authorities to consider local money.

## **19.2 Using the Internet as a crowbar to achieve an other kind of money**

A number of alternative money systems, like the *Free Money*, have not been ended, because they did *not* function, but because they functioned *too well*. In a free market situation they appeared to be stronger than the interestbearing money, whereupon the authorities, which had always defended the interests of the interestbearing money system, prohibited the experiment. We shall have to take the possibility of a prohibition into account in the future, too. Alternatives only have a chance when they cannot be prohibited.

Until now this meant almost automatically that they must function by giro or on basis of a chip-card and must have a confined character. But the time does not stand still. In the mean time banks are carefully exercising with Internet money. And authorities can hardly get control of exactly the Internet. For that reason we also want to start researching what the possibilities are for a money alternative on the Internet.

Internet is the ideal medium to set up globally functioning exchange systems and to launch an own exchange medium excluding all official institutes and all dominant currencies. Moreover, it offers the opportunity to make this exchange medium interest-free and to introduce a liquidity tax.

Besides, Internet offers various possibilities that could make such an exchange system even more attractive. This way people can make use of intelligent search engines with which you can easily find the right person or the right company to match your question. A sort of advanced electronic yellow pages. And a large part of the products such as information, computer software and database files can easily and directly be distributed on the Internet. A great disadvantage of Internet money is that it functions on a worldwide scale by definition.

That is the reason why the Interlink experiment that we are preparing, is so important: in doing so we hope to find a method that gives a preference to the small scale and at the same time makes trade over larger distances effectively possible.

Trust is an essential condition for every money system. Money must have a clear value and you must have a reasonable certainty that it keeps that value. How can we fix the value of the exchange unit of an Internet exchange system? And how do you determine the calculation unit? The own national currency in such a system is, of course, not longer suitable to couple the value to. For it does not longer concern one national currency. So we need an alternative, a standard measure, that can serve as a calculation unit. Existing currencies are too unstable to do so. The dollar has proven this in all the years that it has been serving as a standard in the international money transactions. Also gold, which in the past was used as a cover of money, is unsuitable. In fact, gold has only a kind of mystic value and knows only a few practical applications. Above all the gold price, too, is liable to strong fluctuations caused by speculation.

It is clear that *any* separate value bearer is unsuitable, because its value can always fluctuate for whatever reason. That is why Thomas Greco suggests using not one product as a standard, but a carefully selected collection of products<sup>50</sup>. He suggests as a standard a virtual *basket of basic products* that are traded on a large scale and in large numbers, provides for everyone's real basic needs and has a relatively stable price. Then the value of the exchange medium would correspond with a certain part of the value of this basket. Because the *average* value of a number of different products is usually rather constant, they altogether have a relatively stable price.

For that reason the price of such a collection of products can very well serve as calculation unit in a global exchange system.

An additional advantage is that an exchange unit of which the value is coupled with the products you can buy with it, can, of course, never be liable to price devaluation of those products, or: to inflation. Such an exchange unit can serve excellently to realize a global exchange system.

*To exchange through the Internet: the price of a collection of merchandise as a calculation unit in a global exchange system.*

The coming years Strohaln wants to research how a system with a comparable cover can be set up. Moreover we also want to involve the possibility of introducing a liquidity levy. Can such a levy be used to hamper asking for interest? Does it offer the possibility to make, when needed, the money supply smaller to cope with speculative inflation, if any? And can the proceeds of this money levy, when applied worldwide, be used to make the Internet freely accessible to everyone? Perhaps a liquidity levy provides sufficiently to achieve a worldwide basic income.

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<sup>50</sup> From *New Money for Healthy Communities*, Thomas Greco, 1994.

## Exeter Constants

The idea to let a quantity of trade products serve as a basis of the exchange unit's value has been tested as late as 1972. Then in Exeter, New Hampshire, USA, Dr. Ralph Borsodi started a small-scale experiment with an exchange unit covered by trade products: the *Exeter Constant*. The Constant's value was based on the value of thirty different articles. Borodi's organization calculated each month the actual value of the Constant, so that the course in relation to the dollar was clear. Originally the Constant was meant to protect the purchasing power against price inflation. When because of inflation all kinds of products became more expensive and so the money became less valuable, the Exeter Constant maintained its value. But the influence of the Constant reaches much further than this. Companies started calculating their prices in Constants instead of in dollars, and banks offered loans in Constants.

The people accepted the alternative calculation units, though the local authorities did not cover it. After Borsodi, at a high age, had proven this way that such a fixed-value calculation unit is possible, the experiment stopped.

### 19.3 A bonus for India

In India Strohalm together with Indian and Swiss partners is involved in a project in the state of Andra Pradesh. In a large number of villages with altogether two hundred thousand inhabitants the wealth has increased by various activities. To push back the shortage of vitamins children learn to graft fruit-tree and adults experiment with old sorts of grain like millet. They appear to be much healthier than the rice variant that the local farmers have started to grow under the market's pressure. A health program is running and people work hard on education. And there are tens of women saving groups that provide for the kind of mutual micro-credit with which Minati (see Chapter 4) financing the bamboo to be able to make baskets with it.

One of these projects is possibly extended with a local exchange medium. A problem in doing so is the local *loansharks*: usurers who lend to the villagers at a high price. In the village you mostly recognize them immediately. They are the only ones who live in a stone house. They have a lot of power and do not shrink back from a murder to secure their interests.

We are now looking for a way in which they can have their share at the start, so that they will not see the system as a threat, while if once the mutual exchange gets under way, their role will gradually decrease.

#### *The project plan*

The starting-point when introducing the exchange medium is the creation of a basis of confidence in the local exchange unit. To do so donor money from the outside is implemented as a cover. This happens in such a way that the donor money is used

at least twice and perhaps many more times on the spot. For the donor this is very attractive.

An example can make clear the working of the project. Suppose, there is development money for the construction of a sewer. In the *Bonus* system, as we have named this approach, this money does not go directly to this goal. It is used as a cover for newly to be issued vouchers that must start to function as local money. The workers that dig the sewer are getting paid with these vouchers.

Where can the diggers cash these vouchers? What can they buy with them. Of course, with the vouchers you can only buy products that are produced in the region. Outside the region they are worth nothing. Who wants to buy something from the international production sector, will have to exchange the vouchers for Indian money. This is possible, but at a very unfavorable exchange rate, so that you will certainly have an exchange loss.

Of course, you must be able to pay with the voucher at the local cookie seller, the basket maker, the school or the doctor. But for them the fact that the sewer diggers have vouchers, is no reason to accept those vouchers as a payment. At this point the actual donor money is going to play a role. This money, which was meant for the construction of the sewer, is lent through women saving groups to small, local entrepreneurs (in practice usually women). They borrow this money to buy bamboo or to produce chairs, to buy flour for cookies, to build a clinic etc. Who borrows must pay back, for these are regular business loans. The special thing is that paying back does not need to be done in the Indian currency. In the Bonus system paying back in vouchers is permitted. Even stronger: it is stimulated by more favorable interest conditions. This means that the vouchers for who has borrowed donor money get a real value.

So on the one hand we have the sewer diggers who have vouchers and want to buy products and services with them. On the other hand there are the small female entrepreneurs who want to provide products and services and like to accept local money in return for them, because they can pay their loans with them. This way the vouchers are handed from the digger to the female entrepreneurs.

For the small enterprises that have contracted the loans, this system means that they can be relatively sure of a certain quantity of purchasing demand for their products. For against every loan there is an equal amount of local money that can only be spent locally and so cannot leak away to the international money circuit.

In this way the development money is used at least twice for constructing the sewer and for setting up small enterprises run by the women in the villages. But the matter does not need to end there. If a digger does not need a chair, cookies from the entrepreneurs or a doctor, he will try to find someone else to exchange with. That other person can safely accept the vouchers as a payment, for he also knows that they are of great value to them. These vouchers have got real value and it is to be expected that in many cases they do not go directly to the borrowers but through one

or more intermediate steps. Then the vouchers are going to function as a local exchange medium. They make local exchange possible and create wealth.

So a newly introduced exchange medium, paid to workers in the community, gets value, because entrepreneurs can pay loans in this new exchange medium. Because of this they will widely accept it as a means of payment.

Strohalm supports this project with money and advice. We think it is important that precisely in poor countries local exchange systems are getting off to a good start. For precisely there the official money almost immediately leaks away via the rich to abroad, so that innumerable possibilities remain unused. That is the cause of the perverse combination of poverty and unemployment that we have described before. A local exchange system can help the poor to find a job. In doing so not only the wealth grows, but moreover the community ties are enormously strengthened. That is the reason why we think this project to be important and we want to test this model carefully, so that all obstacles become clear and can be avoided in the future.

## Chapter 20

### Prologue: towards an economy of enough

In 1854 the American Indian chief Seattle gave an address to 'the great white chief', which has become famous by now. In one of the reports of this address we read: *"... of which hope and expectation does the white man tell to his children at the long winter evenings? Which vision does he engrave in their hearts, so that they will yearn for the day of tomorrow?"*

These words come straight from the heart and we, too, can apply these words to ourselves. What are the dreams that we are willing to devote ourselves to and that are a source of inspiration and a compass to us? Which dreams do we pass on to our children? Or, do we not dream any longer, and do we stand with both legs on the ground, are we levelheaded and do we let ourselves be guided by our common sense only?

In this final chapter we want to dream. Because you shouldn't be only realistic and pragmatic, but sometimes be naive and open-minded as well. Because, when you are looking for new roads, you must also have a picture of where those roads should lead to.

#### 20.1 A philosophy of solidarity

In the same address we also read: *"What is man without animals? If all animals are gone, man will die of a feeling of great loneliness. For what has happened to the animals, will soon happen to man. All things hang together. What happens to the earth, happens with the earth's children."*

Don't these words, which can be found in our booklet *"Hoe kun je de lucht bezitten"* (*"How can you possess the air?"*)<sup>51</sup>, reflect what it is all about in our view?

Free Money, JAKs, LETS, interest-free credit systems: they are not goals in themselves. They are means that must help us to give direction to economy and society. They must help us to create a society in which we feel connected with the earth again, with the animals and the plants, with our environment, with each other, with our history. In which we are involved in the time we are living, in future generations and in people all over the world. Such a solidarity lays responsibilities on us, certainly, but at the same time it enriches our life and it provides us a social, cultural and natural context that makes life worth living.

This solidarity was very strikingly phrased by Margrit Kennedy<sup>52</sup>.

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<sup>51</sup> *Hoe kun je de lucht bezitten*, Strohalm, 1980.

<sup>52</sup> Margrit Kennedy at the conference *After sour rain the Flood?* organized by Strohalm in Utrecht at 13th January 1989.

"In the first years of our lives we are all linked with our parents, with our environment. After this we learn that we are independent, we are individuals. Now we shall have to learn again that we are not only individuals, but that we are also linked with everything on this planet. We must break down the obstacles that we have created around us.

We draw the sharpest border between ourselves and nature. We consider them to be two different entities and we do not realize how much they are linked. Until we meet with the problems we have created ourselves. Then we notice how closely we are linked with our environment. The polluted air that we breathe and the polluted water that we drink let us know that we are linked with nature. There is nothing that we can do with the earth that does not return to ourselves in one way or another. "

Modern society has gone far away from this ideal. In the regular Western thinking man stands above nature and he can exploit it as he likes best. Animals are for instance our economic production means. With no other aim in life than being slaughtered after half a year, they are massively fattened up in prisons that we would not wish for the worst criminals. And if they no longer of any use to us, then we destroy them, just like we do with 'mad' cows and sick pigs. In this economized world there is for nature only a place where it is called 'nature' in the zoning plans. It is disappearing ever more from our daily environment and there is only a place for truly free nature in unprofitable out-of-the-way corners.

*Free money, JAKs, LETSsystems etc. are media which must enable us to create a society in which we know we are connected with each other again.*

We must learn again that we, as human beings, are a part of our natural, social and cultural environment. That we are dependent on it, not only for our material existence, but also for the quality of our life, for our psychological, social and cultural development, for our well-being. That we are one humanity, united in one common fate. Then it will be impossible for us to watch untouched the smarting poverty that is still prevalent in so many places and do nothing about it. Then we shall all be partners in misfortune who share the earth. Animals, too, shall be treated by us with respect and compassion. And then nature will be a part again of our direct environment and be a source of well-being and of inspiration. Like our social environment can be a source of community and solidarity. A soil for personal growth in which we can flourish as individuals.

Of course, not everything was better in earlier times. We must embed our modern attainments in a more humane society in which we know we are linked with everything around us and in which everyone has the time and the opportunity to enjoy all attainments of society.

## **20.2 From durability to quality**

A number of years ago the term *durability* became in vogue. The UN's *Brundtland committee* defined durable development as "development that meets the needs of the present without making it impossible for future generation to meet their needs."<sup>53</sup> In other words: a society is durable if every next generation is doing it quite as well as the previous one.

The term 'durability' allows many different interpretations. Gradually the most technological one of them has started to dominate. We may well leave an impoverished earth behind to posterity, if we also leave behind a more economical technology, so that it can create with this impoverished earth as much wealth as we do with the earth that we have at our disposal.

Implicitly needs are narrowed here to material needs: the earth may be quite welcome to become a large desert, as long as we are able with our technology to produce enough food, build houses, make goods etc. In this interpretation you would even be allowed to destroy the earth, as long as you take care that you have a new one in good time.

That this is not our idea of durability and progress will be clear to anyone. What is the value of material certainty of existence, if there is no opportunity, inspiration and challenge to develop oneself immaterially? Should economy and society not focus on an increase in the existence's quality instead of merely on the production of more goods and services? And isn't the quality of our existence determined for a considerable part by non-material (and non-economic) values like leisure time, free space, sociability, silence, nature, nice environment and you name it?

The Flemish comparative philosopher Prof. U. Libbrecht speaks of *providing comfort* and *spiritually taking wings*<sup>54</sup>. "In earlier times the comfort provision process was absolutely necessary for man to be able to survive. But like all things this is a cyclic process: when you go on too far with providing comfort, you will end up in discomfort. We all need housing, clothes, food, heating, sensible work and all that kind of things. As long as these matters are not provided for, the provision of comfort will indeed increase the quality of our life. But if you always go on, then you will not climb the mountain, but you will roll off on the other side. You do not need to be a philosopher to see this. Suppose you have ten seats in your home: you can only sit in one of them."

As an alternative for material growth he proposes a spiritual growth. "After we were born, we all laboriously climb the mountain of life, until we arrive at the top when we are about forty and then we roll downwards on the other side, uniformly accelerated like it should be! At that moment, when you are on top of the mountain, you should spiritually take wings."

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<sup>53</sup> *Our common future*, World Commission on Environment and Development, 1987.

<sup>54</sup> Prof. U. Libbrecht at the conference *Dag van de Bevrijding van de Arbeid (Day of the Liberation of Labor)* organized by Strohalp in Utrecht on 1st May, 1993.

*When our security in the material field is sufficient, we should use this room to divert our attention towards the quality of existence.*

In other words: when there is sufficient certainty of existence in the material sense, there arises room we should use to move our attention to the quality of existence.

"You have plenty of opportunities to make your life interesting and fascinating, for material problems are solved." In this context Libbricht enters into nature's mystic, which in this aspect can be an enrichment of our existence. To do so we must *experience* nature. "The Chinese call nature the *Zechien*: 'being this way by itself'. We must learn to deal with nature and allow nature to be itself. One can never be imbued with the mystery of nature, if one does not experience it. Theories do not solve anything. And it is in these matters that we should learn a little bit from the east. There are the people of experience. They do not ask: how can I understand this? but: how can I experience it?"

### **20.3 A list of desiderata**

Let us fantasize and become concrete at the same time. What is on our list of desiderata for the future?

At first, of course, we want no longer sponge on nature, not on poor communities and not on the future generation. We want no longer be driven by the fear that the system collides. We want to get rid of the dilemma *growth or crisis* and with this of the unfocussed renewal and increase in production that are taking place at this moment.

We want no longer be chased by work pressure or social compulsion neurosis, and no longer be narrowed to consumers, degraded to game of the consumer society. In fact we want a social change-over: no longer *live to work*, but: *work to live*. And no longer *live to consume*, but *consume to live*.

*An end to the undirected renewal and to the increase of production liberates us from the addiction to material production and consumption and strengthens the solidarity.*

So liberation of our addiction of material production and consumption is high on our list of desiderata, in addition to matters like a higher priority for the social and natural environment, the quality of work and the social cohesion of the community we live in. In our vision of the future everyone has time and opportunity to be occupied with things that are *not* useful, to develop oneself in an economically *unproductive* way. Time and opportunity to simply enjoy all the attainments brought forth by society.

We want to strengthen the solidarity, demolish the walls of material consumption around us, so that we obtain the opportunity to let *ourselves* grow instead of the GNP. We want that our work gets embedded in our social environment, so that they will strengthen each other. And so we want that there is more than the discipline of the market that compels everyone to think and to be in terms of profit and efficiency.

The question is: how do we translate these desires to a practical, tangible scale?

#### 20.4 The outlines of an economy of enough

Many of these desires get more opportunities if the economy of efficiency and growth compulsion is replaced by an *economy of enough*: an economy that sets limits to our material wealth goes and that provides a reasonable distribution of it. An economy in which one day enough is enough and that offers everyone, now and in the future, in the North and in the South, the opportunity to live well without unloading unlimitedly its costs to the future and to the weaker people. We are looking for further increase in quality in the non-material domain, in the enrichment of our natural, social and cultural environment. And an increase in know-how and technology is not applied to produce even more and to gather even more material comfort, but to be able to live just as comfortably with less matter.

*The objective of an economy of enough must be: a level of production that is as low as possible while maintaining the maximal quality of existence.*

One of the characteristic of an economy of enough, the word already says so, is that it does not any longer grow permanently and structurally. We want to limit the economic growth, to make room for non-economic matters like leisure time, unused room, sociability, silence, nature, a nice environment etcetera. Of course, this presents a problem for economists and statisticians: it is very hard to measure those values. They only talk of growth, and in doing so they do *not* mean the growth of leisure time and the growth of unused room. On the contrary, for more leisure time and more unused room mean underused economic power, or: opportunities for more production. And growth of production, in particular the productions of goods, that is what economists aim at. That is what statisticians process into *the* economic gauge of today: the Gross National Product (GNP).

An economy of e nough should start from an other main goal: no longer a production level that is as high as possible, but one that is as low as possible while maintaining a maximal quality. Today's GNP can safely be a guideline of policy, but the goal is no longer a maxim al GNP, but the lowest GNP that is possible while maintaining those attainments that we think important. So the lowest possible GNP with which we can keep the quality of housing, food, medical care, old age provisions, public transport, education, health care etc at the level we desire. If we can do with less production, then *that* is progress.

## **APPENDICES**

### **Appendix 1**

#### **What else is possible?**

We are talking in this book mainly about money. Of course, money is not the only starting-point for change. Much more is possible and fortunately a lot more is happening. A great many people and organizations are involved in a great many things. This broadens the movement, and this is necessary to bring about a fundamental change.

Strohalm, too, is involved in various other matters.

#### **Taxation as a starting-point for changes**

The choice for the way in which public income is gathered, has a strongly steering effect on the development of economy and society. Just to mention something: this choice strongly influences the degree in which companies bring labor, raw materials and capital goods into the production process. At this moment we are taxing labor mainly. The use of nature and environment, raw materials and energy is almost untaxed. Business makes exactly from these elements as much use as possible, and from expensive human labor as little as possible. This is, of course, undesirable. It means unnecessary high unemployment, unnecessary destruction of the environment, throwaway production and throwaway consumption. It is much more profitable to buy new goods and throw away the defective ones, then to have them repaired. It is also much more profitable to buy material goods than to make use of all kinds of heavily taxed and so relatively expensive but relatively clean services. So the taxation system compels society into the shackles of waste, material luxury and exploitation of nature. A continuous expulsion of labor is taking place, and society pays for every expelled job three times:

- People whose jobs are taken over by machines and throwaway products become dependent on an unemployment benefit. This means that society must pay more unemployment benefits.
- At the same time these people's premium incomes and wage tax fall due. So while more money is needed, there are fewer people who must provide that money. So they are getting more expensive.
- Besides, the economy's unilateral focus on raw material and energy is detrimental to health, nature and the environment, agriculture and buildings. Its costs, too, will have to be paid by the community. The same counts for the extra costs of waste.

And then we have not at all talked about the immaterial costs that are caused among other things by being unemployed and the attenuation of nature and culture.

## **Towards no longer taxing labor**

When we change the taxation system and start to tax the use of the environment, raw materials and energy *instead of* labor, we steer economy and society in a completely different direction. Then labor force becomes relatively cheap and the use of the environment relatively expensive. Economic activity will start to focus on a minimal use of natural resources and will make use of human labor instead of this as much as possible.

For more than ten years Strohalm has been devoting itself to a *shift away of the taxation foundations from labor towards the environment*. Concerning this we speak of *ecotax plus: do not levy tax on labor but on raw materials*.

The term ecotax has sunk into the political world. Ideas to make taxation ecological are almost common coin already. In doing so taxation of environmental pollution is mainly thought of. Prices should tell the truth, environmental costs made by companies should be charged to those companies. No longer they are allowed to roll down those costs to society, to poor countries or to future generations. *Not taxing* labor only plays a limited role. That does not take away that we are partly on the right way. All kinds of environmental groups and some smaller political parties had to fight for this for many years.

Now we want to take a further step. Not so much the use of the environment as the use of land, raw materials and energy should become the foundation of taxation. Of course, with that you tax the use of the environment just as well. But such a tax levy is much more fundamental, because it tackles the source of the pollution and in doing so it can be realized more effectively and more easily. And the proceeds should not benefit all kinds of environmental measures, such as is the case in most of the proposals, but benefit taxing human labor as least as is possible. Only then the taxation will be able to play a steering role in favor of man and the environment. Only such a shift is really good for employment and for nature. For from the beginning of the production process raw materials will be dealt with economically and especially labor will be used, for it has become much cheaper. If because of such an ecotax plus less raw materials are going to be used in the end, we need not get a fright by this. Then we will have exactly reached our goal. This would reduce the proceeds, but we can counter it by increasing the levy on the remaining consumption. Eventually, an inevitable and acceptable basic use of the environment will remain and we can take a governmental income from this.

## **The practice of ecotax plus**

How is ecotax plus put into practice?

The tax is levied from the companies that import the raw materials and energy-bearers or get them out of the ground. They will charge this tax to those to whom they supply those raw materials or energy-bearers. Besides, a tax is levied on the pollution that is taking place during the production process. Because companies want to

avoid these taxes, they will try their utmost to limit their use of raw materials and energy and their waste production and you name it. In practice the settlement of the ecotax plus will look very much like today's V.A.T. On every intermediary level (wholesale trade, shop etc.) the levy is added in so far as new energy or materials are being used. Eventually, the costs of the ecotax will end up at the consumers via the prices.

Products that use many raw materials and cause a lot of damage will become a lot more expensive. But the consumer does not need to buy those more expensive goods and can also choose a more human-friendly and environment-friendly alternative that has been produced with the aid of less energy and more human labor. For if the wages are not taxed, then those products will become cheaper. This way a change in consumption behavior and so in production in favor of the environment and employment is feasible.

It is important that the increases in costs because of ecotax plus are in principle compensated by the cancellation of the wage costs. Eventually, on an average, neither business nor the consumer needs to fall off. In principle this is about a *shift* of the charges, not about an aggravation.

### **The tale of the progressive distribution of charges**

Isn't it the disadvantage of an ecotax, that not longer the strongest shoulders bear the heaviest burden? That would indeed be a disadvantage, when this was the case right now. But is this the case? It doesn't seem to be so at all. It has been going all right with the rich for years, while the incomes of the minima are lagging behind ever more. Progressive tax tariffs have not been able to stop this.

M.L. and F.P. Wijvekate<sup>55</sup> give an explanation for this. They suggest that the negotiation position of the lower income groups is so weak that when they demand too high incomes, they will be simply automatized away or the production will be removed to a lower income country.

People with high incomes have a much stronger position. They negotiate about nett salaries. If their income is higher taxed, they will stipulate a higher income. In fact, the companies see to the wage tax and premiums. Because they calculate their costs into the prices, everyone pays for them, including the minima. If we also count the tax-deductible items that are involved exactly with a high income, then there remains little of the progressiveness of the tax system.

### **The uncoupling of wages and premiums for the social insurances**

Not only the wage costs, but also the unemployment benefits make labor expensive. They cause just such a spiral: growing employment, higher premiums, more expensive labor and so growing unemployment.

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<sup>55</sup> Alle Hens aan Dek, een nieuw sociaal-fiscaal systeem. M.L. en F.P. Wijvekate, Strengholt, 1983.

Engineer Piet van Elswijk has thought out a solution.<sup>56</sup> In his plan the premiums paid by companies for their employers, become lower according as they have more people employed in proportion to the turnover. So companies that produce a lot by a few people pay high premiums. When such a company invests and decreases the number of jobs in doing so, then the company will pay automatically more. This way the expulsion of people pays its own consequences.

### **Ecotax plus and accumulation**

There is an important relation between ecotax plus and the accumulation and growth cycle which is central in this book. We suggested that a continuous accumulation of wealth ever again leads to new investments and further production growth. One of the sources of this capital accumulation is formed by entrepreneurial profits. In economic flourishing-times profits of ten percent or more are no exceptions, and they end up for the greater part at the shareholders and are used again for new investments. But why do those profits not benefit the people who work in the companies? Why do the employees not claim them? This is because of the weak negotiation position of the employees. This weak negotiation position is the consequence of the continuous threat of people's replacement by raw materials, energy and capital. And this threat is mainly caused by the high wage costs and the low charges on raw materials and energy. They make it much sooner advantageous to replace people by machines and throwaway products. Eventually, wages are not determined by the room that the profit margins offer, but by the costs that the replacement of labor force by mechanization and automation entails. At the moment that we are going to tax raw materials and energy, the costs of this replacement will increase considerably and the employees will be replaced less soon. They can claim higher wages and in doing so cream off a larger part of the capital flow to the financiers. This way this flow of money concentration, too, can be tied up.

### **A first step: flight tax**

### **Flying: subsidized pollution**

Walking along shopwindows you regularly come across them: sales offers of air journeys. For a bargain to Bangkok or Los Angeles. In this way it becomes very attractive indeed for people with a reasonable income to have a few weeks' holidays in a far-away country. But then there is the environment, isn't there? A good-sized Jumbojet burns 1000 liter kerosene per minute at its start. Of the energy needed for a return flight to Crete every passenger can heat his house for a year. So the air traffic supplies a disproportionately large contribution to the hothouse effect, the damage of the ozone layer, the acid rain and not to forget the noise nuisance and the injury to health in the surroundings of airports. In spite of this air traffic is given amply the way. Between 1992 en 1995 in the Netherlands it even grew on an average with ten

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<sup>56</sup> *De Markteconomie sociaal ingevuld*. P. Van Elswijk, van Gorkum, 1996.

percent per year. The cause of this unbridled growth is not hard to find out: flying is cheap, quick and easy. If for a trip to Rome you can choose between two hours in a plane or one day and a half in a more expensive train, then the choice is often made quickly. But this advantage in the price of flying is artificial. For in no way air traffic is taxed. No V.A.T. on tickets and no excise on kerosene, and certainly no passing on of the social costs. So the injury to health and the damage of the environment by air traffic is not paid by the people who fly, but by the whole population, so by the non-flyers, too. Non-flyers also pay for a large part of the infrastructure on and around airfields. How do you mean: "the polluter pays"? The polluter gets subsidy!

### **Kerotax plus**

So air traffic lends itself admirably as a spearhead of ecotax plus. A first step is a *flight tax*: a tax that charges the pollution, nuisance and damage into the price of flying. That would make a liter of kerosene some dollars more expensive. If we introduce a real ecotax plus, a substantial raw material levy would be added. But that is something for the future. First the air traffic should pay its 'normal taxes': common excises on kerosene and a normal V.A.T. That would provide for about 0.75 billion dollar per year.

For civilians and trade and industry this does not need to be extra costs: what is spent on flying on the one side, is reduced on the other side, the wage tax. Each year you could give with this 0.75 billion dollar every Dutchman 25 dollar nett and make every job 75 dollars cheaper.

### **Voluntary flight tax**

To get off a campaign for flight tax to a good start, Strohm developed the idea of the *voluntary flight tax*. Everyone who flies can voluntarily pay flight tax. Via a *flight tax ticket* people are informed on the campaign. The ticket is a nice information booklet that also touches lightly on the objections adhering to flying and on the facts about non-taxing it.

The voluntary flight tax has a free tariff: the traveller him/herself determines the height of the percentage of the air ticket's price he/she pays, with a minimum of 12.5 dollar. We suggest that the air traveller might pay a voluntary flight tax that is just as high as the V.A.T. on the flight ticket should be. For this 17.5 percent is now given to the traveller as a present.

The half of the incoming amount is used for the lobby for the flight tax in Europe, the spreading of information and for publicity. In this way people who fly consciously contribute towards improving the regulations of air traffic. In doing so the first signs are favorable, for in a number of countries the idea of flight tax has quickly become popular yet. If the voluntary flight tax sufficiently takes in the European countries where there is a strong environmental tradition, means to inform people elsewhere in Europe will become available. The other half of the money will be spent on sun or

wind projects. In this way the payers somewhat compensate the air pollution caused by them.

### **Fly-over levy and variable landing rights**

Strohalm also thinks about the possibilities of a fly-over levy and variable landing rights. These are no new loose ideas, but ideas that are existing and carried out on a small scale.

The fly-over levy is a levy per kilometer that an airplane crosses over a country's territory. This tax is already in existence now. It is a payment for the services of a country's air traffic control. There are no international regulations that prohibit increasing such levies with an environmental levy. It could be related to the expulsion of the machine.

Apart from that fly-over levies are sometimes a source of conflicts now already. A number of years ago, for instance, the costs of flying over Siberia have been increased to the great displeasure of the United States. Comparable with these fly-over levies are the variable landing right levies: the machine pays for landing rights at the airfield and they are related to the expulsion. The Zürich and Geneva airfields have introduced them in 1997 and Sweden has even introduced them on a national level on 1st January 1998. Germany is studying on this subject.

### **Distribution of environmental quality by environmental rights**

Another idea advocated by Strohalm is the idea of environmental rights. Now that the use of the environment is ever more approaching its borders, the danger exists that the problems are mainly solved at the cost of the financially weak. You can see this happening when people shout: *the polluter pays*. For what else could it mean than that those who have money are allowed to pollute? *At the cost of those who haven't got any money!* And at the cost of future generations. In every solution of the environmental problems *everyone's equal right on the use of the available natural sources* should be central. It is self-evident that apart from this the total use should stay within the borders that nature can cope with.

We can realize these two starting-points by *rationing* the environmental use. These rations, we shall call them 'environmental rights', credit every human being with a right of use of the earth which is, in principle, equal to anyone. By controlling the quantity of environmental rights to be issued, we can limit the volume of the total environmental use. This way environment rights cast up a dam that prevents nature from being further damaged and this promotes a more honest distribution of what nature offers us.

### **The environmental rights plan in practice**

In short the environmental rights plan means that (a part of) the use of the environment is rationed. People who buy something that is attended by pollution can

no longer do with paying money, but they also have to pay environmental rights. These rights form a kind of second circuit of payments. The authorities issue the environmental rights and everyone is provided with them in equal quantities. The quantity is related to the total environmental pressure that we find acceptable. The environmental rights give a use right of a limited piece of environmental quantity and in principle in total nothing more can be used than the rations issued.

The knife cuts on both sides.

On the one hand we limit the use of the environment. How crushing the growth compulsion may be, it is not allowed to use the environment more than environmental rights are issued. Within this reality technology and the market will look for alternatives. This way environmental rights mean an impulse for developing more durable ways of production. Because re-use, energy-savers, repairable products and durable goods proportionally cost a few rights. On the other hand environmental rights prevent the nature's limited possibilities from falling to the people with the most money.

How would this idea look like in practice?

Every citizen receives monthly a certain quantity of rights that is equal to anyone. The authorities levy those rights on strategical points in the production chain from companies and from importers. So companies and importers need them to do their work. They obtain them by asking not only money but also environmental rights when they sell their products.

The authorities can further limit the damage of the environment by asking more rights per quantity of environmental use. Then companies and importers will have to pay more rights and so they will ask more of them from their customers. When the authorities keep the quantity of right equal, there will be a *shortage* of rights soon. This shortage will stimulate companies to use less raw materials and energy when producing. In doing so the burdening of the environment will really decrease, eventually to the lowest possible level.

It is self-evident to put environment rights into effect in a limited field at first. For instance, on fossil fuels. For the use of fossil fuels is mainly responsible for the hothouse effect and the acid rain. This would not be anything new: during the oil crisis in the seventies among other things gasoline was rationed. There is another possibility worth considering in the congested Benelux Countries. Apart from energy (gasoline) cars themselves could be rationed. Then the rights of a certain number of persons would be needed for the possession of a car. Gradually this number could be increased, so that ever more people are needed for the possession of one car. So the number of cars can be controlled, because of which alternatives will be developed sooner.

## **Cash for the poor**

The Ministry of Housing, Planning and the Environment has got done a research into the people's attitude towards the environment and their actual behavior. It appeared that people with the lowest incomes showed the most environment-friendly behavior. This is not surprising: often they haven't got a car, they do not make air-journeys, they buy fewer goods, they often try to repair things etc. In the absolute *and* relative sense they pollute the least (per dollar spent).

So if the environment is rationed, people who manage on a minimum income have left over environmental rights. This way there arises a market where there is trade in environmental rights and where companies can buy the extra environmental rights they need.

The same counts for the whole world: if environmental rights are introduced worldwide, people in the poorest countries will get as many rights as those in rich countries. Then the rich countries will have to buy from the poor countries extra rights for the raw materials they are carrying off throughout the world. Then, apart from the payments for the raw materials themselves, a second money flow towards the poor countries will arise because of the trade in environmental rights. The money of the rights sold gives the poor countries more possibilities to work on their own development. Then ever less environmental rights become available for the rich countries. They will have to limit their use of the environment ever more and to develop a recycling economy ever more. Wealth will be more balanced and new recycling technology will be developed ever faster.

## **Popular support**

The idea of rationing is not new. More than once part of the economic intercourse is subjected to a quota system. Think of the rations in times of war, the gasoline rations during the oil crisis and the present-day milk quota. This idea, however, has hardly sunk into current politics. It would be fine if at least progressive parties go deeply into this subject, for the subject of environmental rights fits them like a glove. At this moment ever more scarce qualities like nature, rest and a nice scenery are pinched for free by people who can afford to fly as much as they like, drive cars and live in expensive villa's. One person is driving with his/her car in the woods. The other lives close to the road on which this person is driving and is troubled by the noise, inhales the exhaust-gases and comes across ever more fences in the woods. 'Left' parties can certainly score a success by putting this injustice right.

Also for *the basic income movement* environmental rights might form solid subsoil. For basic income starts with basic rights: right on a certain environmental capacity, right on clean air and clean water, right on a piece of nature, right on a certain plot of land etc. The leasing of the unused part of these rights should provide a basic income for people who make little use of the environment.

In various places ideas that can be reduced to the denominator 'environmental rights' are raising their heads. The *Milieudefensie Society* advocated a (temporarily voluntary) quota of 4,000 kilometers per car user per year. Civil servants of the Ministry of Housing, Planning and the Environment play with comparable thoughts. We read this idea in a magazine about the hothouse effect published by this ministry. And already years ago the deputy director-general of the ministry, Mr. Zoeteman, made an introductory speech on environmental rights.

### **Negotiable emission rights**

A variant on the idea of environmental rights is the negotiable *emission rights*. Emission rights are licenses for the emission of a certain quantity of polluted air. They are given to and collected from companies. These companies are not allowed to emit more than the quantity of emission rights they own. Companies can mutually buy and sell these emission rights from each other.

It is often suggested to issue these rights to companies according to the quantity of pollution that they are emitting at this moment. It is a better alternative to sell them by auction. In view of the connection between income and pollution, which we have signaled before, it would be reasonable to spend the sales returns on a decrease of the wage costs for the lowest income groups. This would give them more financial elbowroom and at the same time it would yield extra employment and so benefit everybody.

If in the first instance the quantity of rights being auctioned is in accordance with the pollution that takes place, companies have nothing to complain. A gradual reduction that is announced beforehand will give them the opportunity to adapt their conduct of business. Here, too, the environmental advantage arises at the moment that the authorities start giving emission rights for a smaller quantity of pollution than really is pushed out. Then a shortage arises and the market provides that most of the polluting production disappears if it yields too little profit. Where less pollution can easily be realized, the pollution will be really reduced.

By now some American states have introduced a system of emission rights. A part of the rights is given away and a part is auctioned.

## Appendix 2

### Who is Strohalm?

Since its foundation in 1970 Strohalm, as a national, environmental and social organization, seeks for solutions for both the environmental and other social problems. We are doing this with rather ambitious objectives in mind.

- We want a humanfriendly society that offers everyone the space, the freedom *and* the material conditions to develop oneself according to his/her own choice and own possibilities.
- We want a society that holds its conditions of existence and so leaves a livable world to future generations. In other words: a society that takes full account of its ecological basis.
- We want a society that challenges people to cultural and spiritual development and has an eye for the quality of existence. So a society that leaves room for a richly developed nature, that stimulates cultural and spiritual diversity and deepening and that promotes solidarity between people mutually and between people and their surroundings.

We have come to these objectives in the more than 25 years of Strohalm's existence.

Started as a merely environmental organization, from the beginning we were convinced that environmental problems cannot be solved with a filter here and a dust hood there and that a more environment-friendly behavior does not come by itself.

The environmental problems are built-in in the social structures and that forces us to tackle them at the social roots. That is the reason why we are working on a different economy: an economy that stays within the borders determined by its ecological basis and that offers *all* people the opportunities to develop themselves now and in the future. In doing so *people* should decide on the developments in society, and not abstract laws or compulsion caused by international developments. We think it is no good if countries, boards and individuals float more on the whims of the techno-economical development than that they focus on their own choices. It is important that people and cultures design their future in a way that meets the needs and wishes of future generations and that they can also take the responsibility for this. We try to contribute towards this by informing as many people as possible and to help them organizing themselves.

At this moment, in our view, society hardly develops itself under the influence of people's conscious choices. As it were, we are floating on the flow of the technical and economical developments. There is no objective for what kind of future we would like, not in the Netherlands and not in the rest of the world. Blueprints of splendid final situations that are dangled before our eyes appear to be unrealistic. That is logical: society is dynamical and will always remain that way. For that reason the field of forces is more important than the final picture at a certain moment. Only if a great

many people think critically, are active and have the organizational know-how to exert pressure, the developments dictated by technology and economy can be readjusted.

Strohalm does not limit itself to the environment only. In our view the social and cultural situation and the relation with poor countries cannot be seen apart from environmental issues in the Netherlands. It is unacceptable to solve the environmental problems at the cost of the poor. So in the past we have regularly involved ourselves in subjects that combined a Third World aspect with an environmental aspect. Already in the seventies we organized an information project about the dangers of selling off the tropical forests. For many years we even tried to make people conscious of the hothouse effect's dangers. Nowadays, fortunately, these subjects have got a high priority throughout the environmental movement and are also receiving all attention in the media. Now for many it is self-evident not to lose sight of the social aspect of these subjects. With this book, and with our work on small-scale exchange, saving and credit systems we hope to take a next step in coupling environmental problems to the poverty problems. We hope to set going a movement that works on integrated solutions to these problems. If you want to support us in doing so, you are heartily welcome.

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How do we get grip on the developments? How can we solve best problems like destruction of nature, worldwide poverty and violence? An unambiguous answer to this question cannot be given, but in any case we shall have to take other roads. And to find them, we shall have to experiment.

In a campaign Strohalm calls upon people to search for structural changes. We do not advocate blueprints or definitive solutions, but we do advocate trying out things. Things that are allowed to fail. If you want to make a chance of real improvements, then you must dare to do strange things on a small scale. And even if some of them appear not to work, there may also be one of them that can mean a break-through. The core of the campaign is a *pass-on box*. It must become an interactive box in which participants can put their own contribution and which they pass on to friends and acquaintances. Join in! Also ask for such a pass-on box.

## Appendix 3 Literature

Do you want to read more? The following publications about the themes in this book can be ordered at Strohalm (prices are exclusive of forwarding charges):

### On growth

- Richard Douthwaite, 1992, *The Growth Illusion*, Lilliput Press, Dublin.  
A further deepening of the problems that are caused by the money economy. About the dangers of economic growth: economic growth has mainly made the rich richer, while most people have just become poorer and the earth is being destroyed ever more. (Dfl. 50,50 including forwarding charges.)
- Frank Biesboer (red.), 1993, *Greep op groei*, Strohalm, Utrecht.  
A range of opinions on money and economic growth by leading economists and other scientists in reaction to Strohalm's ideas.  
(Dfl 45,- including forwarding charges)

### On the theory of interest, money and economy

- Sylvio Gesell, *Het wondereiland Barataria*, after Juan Acratillo (1675), Strohalm, Utrecht.  
A fictional story about a society in a nutshell which shows in an amusing way how money works and how different money systems lead to different forms of societies.  
(Dfl 10,-)
- Willem Hoogendijk, 1993, *Economie ondersteboven*, Publishing Company Jan van Arkel, Utrecht. (Dfl. 10,-)

### On the practice

- Richard Douthwaite, 1996, *Short Circuit*, Lilliput Press, Dublin.  
How to strengthen the local economy in an instable world economy. An extensive stock-taking with a great many examples. (Dfl. 45,-)
- Strohalm, 1998, *Lokale Economie Wereldwijd, over spaar-, ruil- en kredietsystemen in het Zuiden*, Utrecht.  
This book describes various forms of local saving, exchange and credit systems that function in the South and it shows us that these systems exist everywhere.  
Indispensable for who wants to pull together with people everywhere on earth.

### On LETS

- Strohalm, 1998, *LETS, een nieuwe manier van ruilen*, Utrecht.  
Brochure with useful information for who wants to know more on the practice of LETS. Dfl. 3,40.
- *Opstartpakket voor LETS*, Strohalm, Utrecht.  
Essential information for who wants to get really started with LETS  
Dfl. 15,-.

### On the philosophy behind it

- *Hoe kun je de lucht bezitten*, Strohalm/Publishing Company Jan van Arkel, 1980, Utrecht.

Three versions of the chief Seattle's speech, which he made in the 19th century and in which he gives the Indian view on man and his surroundings. Beautiful, renewed publication (Dfl. 19,75)

- Guus Peterse (ed.), 1991, *Naar een filosofie van verbondenheid*, Stroehalm, Utrecht.

On the background of Stroehalm's view: solidarity, large-scale limitation and small-scale freedom, changes through steering mechanisms. (Dfl. 5,-)

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[text on the back of the book]

## **MONEY AND ITS ALTERNATIVES**

### ***How money controls the world and the alternatives to change it***

"Money makes the world go round" goes the well-known saying. If money is so determining, why do we know so little about the various kinds of money systems that are possible? Don't changes in this field not precisely offer possibilities to bring about structural improvements in fields such as poverty, environmental pollution and the fading away of culture?

In this book you are given surprising and for many people new insights. Insights that are utterly useful to bring about improvements. Choices in relation to the kind of money and the way to bring it into circulation appear to be highly influential on matters such as rush, poverty and pollution.

You will read about money and interest and about everything else that is possible in this field.

Apart from that this book shows something of what already exists of renewing initiatives and ideas in the field of small-scale exchange, saving and credit systems that can bring the local economy to flourishing. In this field much more is happening than many people know. Everywhere in the world utterly fascinating initiatives appear to exist from which we can learn much. Alternatives for the current money system with excellent starting-points for positive change.

Keywords: Environment, economy and development, money and alternatives, local economy.

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