Social Money – Concept Paper

Complementary Currency Systems and the New Economic Paradigm

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Background of the WSSE Social Money Workshop

The Social Money Workshop was launched in 2000, as one of 15 working groups in the WSSE. The activities of the Workshop included the initiation and operation of the Social Money Tri-Lingual Discussion Group facilitating international communication between actors in Social Money organizations and projects, and the collection and dissemination of Case Studies and dissemination of information through http://money.socioeco.org.

Through participation in WSSE meetings, the European and World Social Forums, the Social Money Workshop has worked to present its diagnosis of the present economic situation and our contributions to finding a resolution together with our partners in the other working groups.

1. Concepts and Definition:

The Social Money Workshop was formed to study initiatives based on *para-monetary* instruments, what we call "Complementary Currency" which can be submitted to social control. The intention of this focus is to demonstrate the possibilities of creating another economy, initially complementary to formal economy but later capable of introducing a new economic paradigm.

However, it seems that the other participants in the WSSE still do not have a clear idea of what Social Money is about. Perhaps the term itself is misleading, resulting in a misunderstanding of what we are trying to achieve. It is possible that the use of this term has made it difficult for our colleagues to understand our diagnosis of the economic problem, and how our work is not only theoretically, but more importantly practically demonstrating our path to this new economic paradigm. Therefore, for the purposes of this meeting we are not limiting the scope of our work to Social Money, which is one type of Complementary Currency System, but broadening our scope to include case studies of those systems that more closely connect to other Solidarity Economy initiatives.

From discussions with participants in other working groups, we received the general perception that our work involved isolated, small-scale experiments in "funny money", mainly aimed at the circulation of "unwanted goods and services" that were not usually found in the typical range of goods and services normally described as essential for meeting basic needs. The lack of connection with national currency meant that those involved in Fair Trade, Micro and Solidarity Finance considered our contribution to be not relevant to their work, that our organizations were informal and therefore unprofessional and incapable of providing a wide range of financial services. Although some groups, such as Women and Economy could see that the valuation of traditionally undervalued activities would increase the opportunity for women to receive economic advantage from participating in a Social Money system, those involved in the redistribution of scarce monetary resources generally could not understand why we were doing, what we were doing or how we were doing it.

Thus it is important for us to re-present our diagnosis of the present economic and monetary situation, and how our systems are aiming at a new economic paradigm in a way that presents our values and indicators, as well as a strategy for practical collaboration with the other actors in the WSSE.

Diagnosis of the Economic Problem

The study of Economics traditionally deals with the allocation of scarce resources, whether natural or monetary. National Currency, issued as loans at interest, reflects this perception of scarcity. The charging of interest ensures that the money supply is always below the level needed to support low level and local level exchange. As the creation of money by those who are able to borrow is a top-down process, inflation occurs even though those people at the bottom of society are not able to meet their needs using local resources. It is clearly evident that some parts of a country, and some parts of the world, do not have enough monetary resources to effectively meet needs, let alone generate capital to engage in production.

Secondly, Economic traditionally assumes that the marketplace is the most effective mechanism for facilitating the circulation of scarce money. Efficient and competitive industries thus circulate money between them, and inefficient and uncompetitive industries do not receive money. When interest rates on loans in third world countries are around 15-30%, it is difficult for industries in these countries to compete with companies that can access loans at 0-10% interest. Thus, the marketplace is not a level playing field. Micro and small industries in third world countries cannot access the capital they need at a price they can afford in order to develop their industries into something that is efficient and competitive. Money drains from local areas to urban areas, and the people migrate to follow the money.

Thirdly, in times of high inflation or deflation in wealthy countries, or in third world countries that experience permanent inflation, there is little incentive for people to circulate money. The circulation of money stagnates and the economy goes into recession or depression. As with what happened during the Asian Monetary Crisis, the natural mechanisms for speeding up a stagnating economy, or slowing down an overheating economy work far too slowly, and the impact on poor communities and third world societies can be devastating.

Although there are more points to the diagnosis than these three, already we can raise questions for our colleagues in the other working groups to consider:

In the field of Micro and Solidarity Finance, a person receives a loan to buy a machine to produce goods for the marketplace. The money for the machine has drained from the community to the city where the machine was purchased. When they take their goods to the marketplace there is not enough money to buy their products. How is money injected into the local level to support consumption? If a person does not have collateral for a loan, or title to the collateral they have, what methods are available to reduce loan risk, and thus the rate of interest for borrowers to help make them more price competitive with producers in countries with lower interest rates?

Further, a Self-Help Group of women receive loans to start virtually identical small home-based stores selling western products, which is a common practice with some microfinance organizations. How do their activities support one another, and the initiation of economic activities that would rebuild the local economy? What can the Self-Help Group do to encourage the circulation of money between its members?

In the field of Fair Trade, a handicraft producer receives a larger amount of money to sell to the Fair Trade buyer than if they sold their products on the regular marketplace. Next year, the Fair Trade organization has moved on, but the producer is considered inefficient and cannot sell their products. How does the producer recover from the distortion caused in the marketplace? Will the other producers who did not get Fair Trade contracts, and are jealous of the producer who had the contract with the Fair Trade buyer, be willing to support this producer? What can the Fair Trade organization do to develop a Micro, Small and Medium Enterprise network to support the sustainability of these enterprises?

The purpose of these questions is not to criticize the activities of our colleagues, not in the least. However, they raise points of discussion that the Social Money Workshop is working on to present solutions that participants in this workshop have already developed working solutions to.

Complementary Currency Systems and the New Economic Paradigm

At the most basic level, Complementary Currency Systems deal with the identification and mobilization of abundant resources. On the one hand these are social resources: knowledge, skills, education, human energy and the capacity to think and act, to work together to achieve goals and bring our ideas to reality. On the other hand these are monetary and economic resources: loans, capital, and networks for the circulation of money that mobilize social resources toward not only the meeting of basic needs, but the great achievements of human society. It was not the kind of scarce money that we use today that financed the construction of the pyramids or the cathedrals, but the kind of abundant money we are talking about when we talk about Complementary Currency Systems.

Nearly every monetary crisis has generated new forms of money, which often circulated next to each other as a complementary currency. Some of these systems continue to this day, such as the Channel Islands currencies used in Jersey and Guernsey, or the WIR Bank in Switzerland or JAK Bank in Sweden, or the Thailand and Japanese currencies issued during the Asia Monetary Crisis. Others have faded from use but not from memory, such as the City Money in Germany during the Weimar Republic, the Worgl Currency System in Austria, or Depression-Era complementary currencies issued during the Great Depression. The variety of reasons for issuing these currencies aside from Monetary Crisis, and the variety of results achieved has proven their usefulness and practicality in achieving an Economy of Solidarity.

Different Complementary Currency Systems are used to achieve different goals, whether social and cultural, economic and environmental development. These different systems are distinguished but not separated into two main methodological approaches, the approach of valuing currencies through social trust, and the approach of valuing currencies through contracts that value the currencies with resources or with national currency.

The first approach, valuing currencies through social trust, is used by systems known as Local Exchange Trading Systems, Open Money, Time Banks, Red de Trueque Solidario and HOURS systems. In these systems, the money is issued locally under the social control of the community. The goals are social inclusion and cohesion, the valuation of activities that are traditionally undervalued, such as the work of women, the exchange of local knowledge, products, services and time. These are the systems are generally referring to when we talk about Social Money Systems.

The second approach, valuing currencies with natural resources or national currency is more recent in modern practice, although there is a long history of examples, from “Warehouse Receipts” used in ancient Mesopotamia, Egypt and the Middle East such as the Shekel which means “bushel of wheat”, to convertible voucher currencies, monetized coupons and gift certificates such as the Monneta Regio, WIR and JAK Banks, Strohalm’s Fomento and Consumer Commerce Circuit programs, Saltspring Island and Toronto Dollars which are worth their face value alongside national currency in stores, to currencies valued in electrical units, carbon, forest and water resources. Although systems that use these methodologies may also be considered as Social Money Systems, often they are not under broad social control and instead managed by a government, warehouse, company or formal organization that is responsible for maintaining their value.

This second approach has led to programs that are very similar to or work in collaboration with Micro, Small and Medium Enterprise Clusters, Micro and Solidarity Finance and Fair Trade, although with some modifications it would be very possible for groups using the first approach mentioned above to also engage in many of these same activities.

<u>Case Studies:</u>

Thailand: The Boon Kud Chum Complementary Currency System

Thailand was one of the countries that was hardest hit by the Monetary Crisis which began in 1997. While the other countries of Asia except for Malaysia, which pursued a wise strategy of controls on capital flight, were deeply affect by the crisis, in these countries it meant extreme poverty for those who were already extremely poor. The rural areas emptied out into the cities in a desperate search for scarce money. Two rural fieldworkers, Jeff Powell from Canada and Menno Salverda from Holland who were working with the Canadian organization CUSO and the British organization VSO, began exploring complementary currency systems as a way to stem the flow of people and money from the rural areas. With the support of CUSO, they conducted a series of workshops in different parts of Thailand, and settled on a partnership with the cluster of villages of Kud Chum in northeastern Thailand, about an hour's drive from the Mekong River and Cambodia.

The village was a healthy and active Buddhist society with its own Monastery which was very active in community economic development. The villagers were inclusive and close-knit, working the rice fields together and bartering what they did not need for themselves. A semi-formal barter organization was formed by a group of farmers themselves, and a project in the village was underway to construct a Farmer's Cooperative Rice Mill to collect and sell their organic rice. As the fieldworkers could speak Thai and the local Lao language, and were able to live in the village with its extremes of high temperature, severe drought in one season and severe flooding in the other, poor living conditions and a diet where insects, rodents and reptiles contribute to the protein in the villagers' diet, they quickly immersed themselves in their project with partnership with the Head of the Village, and Abbott from the Monastery.

As this was the first complementary currency system to be introduced in Asia outside of Japan, they conducted extensive research on the state of complementary currency systems at the time to determine the most suitable system for the community, deciding on a modification of the Mutual Credit/LETS model: an interest-free accounting system where people could withdraw complementary currency notes which had an equivalent value to the Thai Baht. Through their dedication to the project, regular workshops and discussions, the villagers' enthusiasm grew and a group was trained to manage the system.

In early 2000 the system was launched, and it almost immediately gained national media attention[1]. The governor of Bangkok came to visit, along with other Thai dignitiaries who expressed their interest in the system, and appreciation for the villagers in taking the initiative to deal with the affects of the monetary crisis on their communities. However, this led to concern about violations of the Finance and Banking laws of Thailand and fears of national disintegration and abuse of the system, and by March of that year the Bank of Thailand suspended operations of the system pending an investigation. With assistance from the Law Society of Thailand and meetings with Government and Banking officials, the villagers were able to explain and prove that the system would not affect the national economic system and was not an attempt to separate northeastern Thailand into a new economic zone or country. Within a few months the system was allowed to restart pending a few changes, namely that the informal name of the community organization, "Bank of Bia Kud Chum" and the name of the currency "Bia" which was the name of the traditional currency from ancient times was not allowed and was changed to "Boon" which means "helping each other". Also, each note was to receive a rubber stamp in red which said that "this is not money", meaning that it was not a substitute for the national legal tender, or an attempt to subvert the national economy.

The system continues to this day, but has become smaller as the Thai economy has recovered, during which time electricity and a few telephones were brought to the village, and main roads paved in concrete. In 2002, the rural development workers finished their contracts and returned to new jobs in their home countries, leaving the project to be managed by the Local Development Institute of Thailand and the Country Director of CUSO. During the time of the media coverage and investigation by the Bank of Thailand, a number of academics from the top universities of Thailand became interested in the system, and as interest in the Boon Kud Chum waned in the Local Development Institute, the academics formed an organization to assist the group in Kud Chum, and spread the system to other areas. As one of the main academics, retired Professor Dr. Apichai Puntasen worked closely with the King of Thailand on the development of the King's Concept of the Economy of Sufficiency, he was in a position to receive funding from the King's Thailand Research Fund for several years to support the spread and development of Complementary Currency Systems throughout Thailand. Today there are more than a dozen

[1] Many of these articles have been saved for posterity and are available at http://www.appropriate-economics.org/asia/asia.html#thai

systems, in different regions of Thailand, in urban and rural areas and among Muslim and Buddhist communities. Although the basic design of the system is the same in the different communities, the organization is looking to support local enterprises and has begun research into Voucher Currency System methodologies to target the systems towards micro and small enterprise development.

Honduras: the COMAL Micro-Small-Medium Enterprise Network Cluster

COMAL is a marketing organisation for basic consumer goods that started its activities in 1997. The network includes 42 social organizations. Its members (and target group) consist of small producers and consumers in rural Honduras. COMAL aims to improve the rural economy by offering basic consumer goods at a fair price for both producer and consumer. It supplies more than 400 community shops who serve an estimated 16,000 consuming families. The distribution takes place through one central buying unit and several regional distribution centres throughout the country. COMAL forms part of an international network of community marketing organisations, called RELACC, which represents 623 grassroots and second level organisations in almost all Latin American countries.

Whereas most conventional development organisations focus on the production side of the economy, COMAL has chosen to also include the consumption side: a farmer is not only a producer but also a consumer (the “prosumer”-concept). COMAL tries to include as many internally produced products as possible within the assortment marketed, but the range of products is still small (mainly beans and corn). In order to increase this range, COMAL has identified several products that can be produced in the distinctive rural areas. The slogan of COMAL is “marketing at a fair price and weight, supporting the small producer and consumer” which clearly reflects the double focus on both production and consumption.

The central unit buys produce from farmer’s organizations, but instead of paying with national currency, COMAL pays with its own network currency, called UDIS. In this way, the national currency is freed up to pay suppliers of goods that are outside of the network in cash or buying in larger quantities and thus obtaining better prices. Local producers also have access to a credit program consisting of loans partly in national currency, partly in UDIS. Preference is given to enterprises that can supply to the network and accept UDIS, thus building the network to include an increasingly wider range of goods and services.

At the same time, another system has been implemented to target the development of specific industries by channelling enterprise development funding using a Strohalm methodology called Fomento, meaning “to drive or push”. This methodology applies a combination of national currency and complementary currency to the construction and equipping of enterprises, paying for materials and machinery in national currency, and labor in part national currency and complementary currency, as well as loans made in national currency which can be repaid either in national currency or preferably, in complementary currency. This system creates demand for the new enterprise's products, and targets circulation to help the fledgling enterprise through its early days until it is able to join the regular network and the enterprise development funds have been exhausted. Thus it is a temporary system designed to achieve a temporary goal. This model, first successfully applied in the construction of a School in the city of Fortaleza in Brazil, proved itself to capable of achieving circulation of 25% higher than a typical development project[2], and results which had a beneficial impact on the surrounding community.

2. Vision and Main Challenges

Our main vision is to change the present perspective of economics from one of scarcity to one of abundance. We have discovered that this change leads to several important social and psychological results. One major shift is from a needs-based mentality to an asset-based mentality. If we are only looking at what we do not have, what our community or country does not have, then we create a mentality of poverty and helplessness, of dependence on others for aid and assistance. We do not see the opportunities to work with what we do have.

When we do see what we do have and work to give value to and mobilize these assets, our willingness to cooperate increases. We begin to recognize our interdependence, and how we can profit from combining our assets. This is in stark contrast to the competitiveness between people, not only in wealthy societies but even in some very poor ones as well. This is not the kind of competitiveness that leads to production efficiency, but to withholding resources in order to prevent others from advancing past us.

This shift in perspective gives us the vision of an inclusive economic system that provides opportunity for everyone to participate, to give according to their abilities. And by giving in this way, we receive the vision of meeting local needs using local resources, using a local medium of exchange that respects these resources to use them optimally and sustainably. For us, these visions illuminate the path to a new economic paradigm.

Along the path, we face a number of challenges that that the Social Money Workshop has been working to overcome. The rapid growth in the number of systems, the types of methodologies used, the social-cultural-linguistic backgrounds has made it essential to improve

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[2] The third-party research report is published in the Fomento/Bonus section at http://www.strohalm.org/materials.html

communication and understanding between the systems and methodologies in order to tame individual egos and improve cooperation. The Social Money Workshop has been instrumental in this, launching the first Tri-Lingual Discussion Group to bridge the gap between the English, French and Spanish language speakers, and to work to include speakers of German, Portuguese and Japanese, the six languages that the vast majority of complementary currency systems operate in.

Through the discussion group, we shared case studies and experiences of “best practices” aimed at improving the quality and performance of Social Money Systems in terms of administration, cost-recovery and education. These discussions led us to discussions of a “Typology of Money”, mutual understanding of key terminology, and the development of performance indicators which led to the creation of the Worldwide Database of Complementary Currency Systems at http://www.complementarycurrency.org/ccDatabase/les_public.html, and an open library for the presentation of design models and case studies of successful initiatives, at http://www.complementarycurrency.org/materials.php, in order to achieve the goals that we have outlined for the Second Phase of the Social Money Workshop.

While we continue to work on these tasks, for the future our next challenges become our goals for the Third Phase, to improve connections with other actors in the Solidarity Economy movement, to develop a language that will allow for clearer communication of our efforts to be better understandable by others and to demonstrate how some actors in the Social Money effort have succeeded with their Micro and Solidarity Finance and Fair Trade programs so that we may see collaboration with those organizations that are directly focused on these programs in the future. With respect to the diversity between complementary currency systems, we are working to develop points of contact between systems to encourage an increased geographical range for the trade of goods and achieving optimal economies of productive and monetary scale. Finally, we have the goal of creating an International Federation of Complementary Currency Systems, an international network of collaborating systems.