

# How to Build Healthy Community Economies



# What Is a Community?

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

*-- Michael Linton*

# What Are The Defining Characteristics of Community?

Economic and cultural self-sufficiency are defining characteristics of community.

# People Everywhere Thirst for Community

But people do not generally understand how the dominant institutions of money and banking are corrosive to the social fabric, and how they preempt community self-determination.

# Healthy Communities Require Healthy Local Economies

# Cities are the Salient Economic Entities

According to Jane Jacobs, cities, not nations, are the salient economic entities.

It is the economies of cities and their economic regions upon which the health of our national and global economies depend.

# Common Problems of Community Economies

- Local producers are forced to compete with outside producers that are subsidized or not required to play by the same rules.
- Terms of trade are dictated by outside buyers or sellers who dominate markets.
- Money that comes in, goes quickly out again.
- Resources and wealth are siphoned off by absentee owners.



# Conventional Money is Problematic

- The present monetary system adversely impacts the economy, the environment, and society.
  - Money and banking have been politicized.
  - Money today exists mainly as bank credit that must be borrowed into circulation at interest.
  - The global monetary system has institutionalized interest (usury), which creates a **growth imperative**.

# How is Debt Money Dysfunctional?

The global debt-money system **forces cancerous growth!**

- Money is kept artificially scarce
- Money is expensive
- Money is mis-allocated

# How to *Insulate*, but not *Isolate*, the local economy to:

- Reduce exploitation,
- Enhance economic vitality,
- Enable self-determination, and
- Optimize the community's standard of living?

A Rising Tide May Lift All Boats,  
But the Tidal Wave of  
Globalization  
Smashes All but the Biggest

# Building Safe Harbors



# What Kinds of “Sea Walls” Can Be Built to Make the Local Economy a “Safe Harbor?”

# Money is the Key

- Specialization of labor means that we must acquire most of what we need by trading with others.
- Money is the device that enables trade.
- Money has been politicized and monopolized, and made an instrument of power.
- Those who control money control everything.

# There Is A Fundamental Need For Exchange Mechanisms that:

- Enable **all** desirable trades,
- Reduce business costs,
- Favor local suppliers, and
- Enable community control over its own economy.



# Mutual Credit Associations and Community Currencies

- Provide exchange media that are:
  - Abundant
  - Interest-free
  - Community controlled
  - Democratically allocated
  - Stable and Sustainable

# Liberating Exchange

- Two Synergistic Approaches:
  - Mutual Credit Clearing Exchanges
  - Community Currencies

# What is a Mutual Credit Clearing Exchange?

- A *clearing exchange*, or **mutual credit system**, is an association of buyers and sellers that provides for the direct settlement of bills due to one another, reducing or eliminating the need to use money as an intermediary payment medium.
- It enables bills to be **paid without money**.

# How Does Clearing Work?

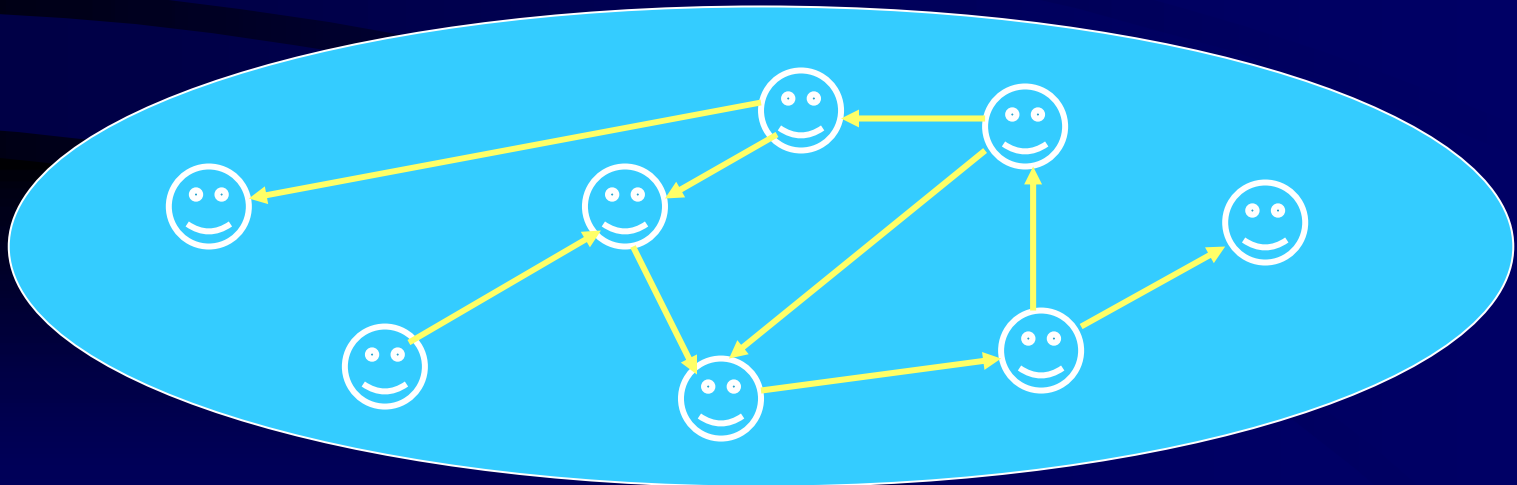
- Ultimately, **goods and services pay for other goods and services**; money is just an intermediary device.
- When you sell something, your account balance is credited (increased); when you buy something, your account balance is debited (decreased).
- Remaining balances may be settled at periodic intervals, or may be carried over indefinitely.

# LETS is a Mutual Credit Clearing System

- Many people are familiar with a mutual credit system called LETS – Local Employment and Trading System.
- LETS systems have proliferated in communities around the world.
- There are probably close to two thousand systems now in operation.

# Toward A Healthy Community Economy

- A group of businesses can organize into a mutual credit clearing association to enable cashless trading among themselves.



# Payment Options

- Payments to one another may be made simply by recording transactions on the ledger of accounts, or,
- Paper currency notes may be allocated to the mutual credit members to reduce the need for record-keeping, and to enable trading with others who are not members.

# Participation by Non-members

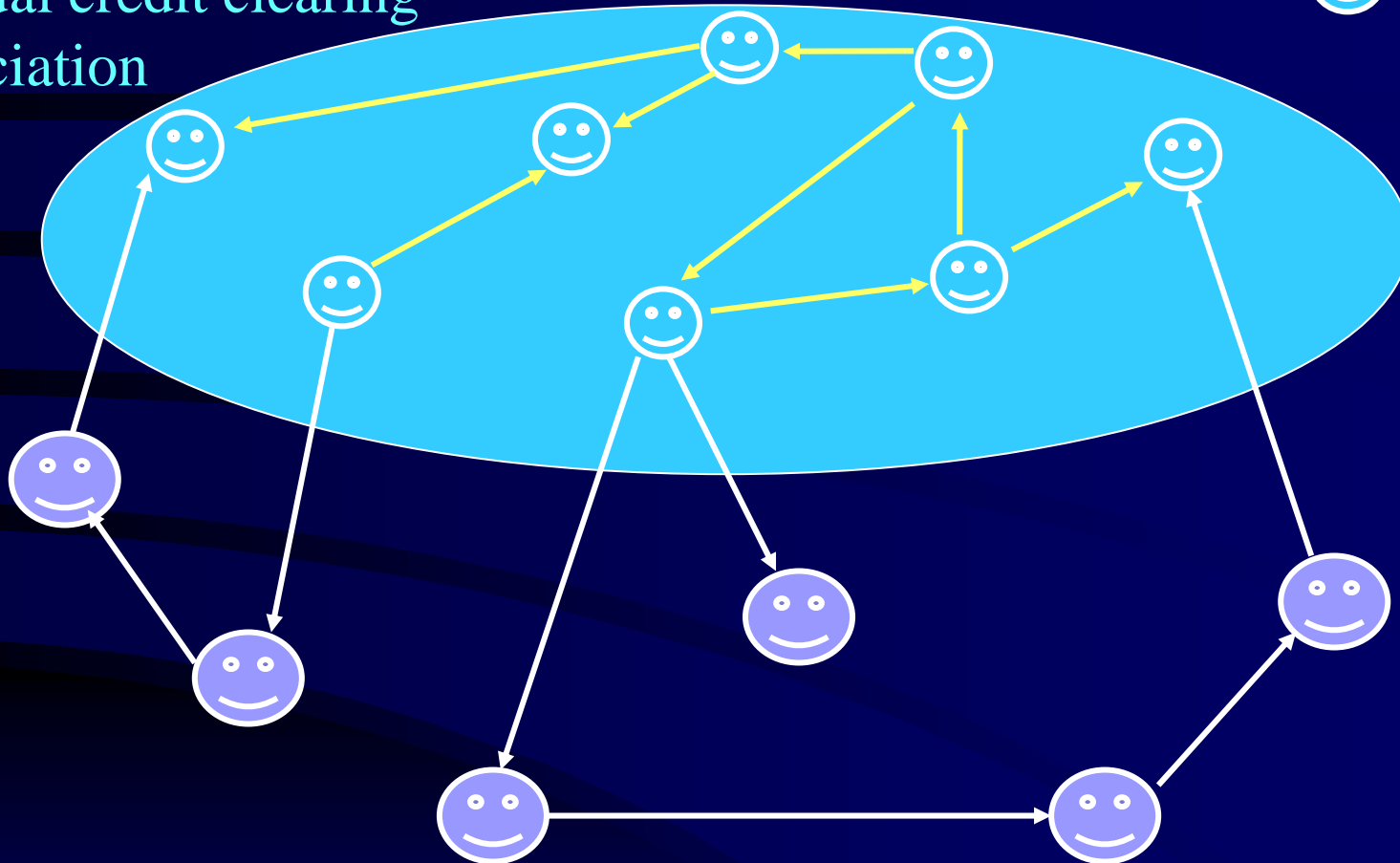
- Currency issued by and for the association can also circulate outside of the association as payment to anyone willing to accept it.



# Currency Issuance and Circulation

Mutual credit clearing  
association

☺ Issuers



☺ Non-member users

# Circulating Currency

- Aside from any mutual credit association, a currency may also be issued independently by a single company or group of companies.
- Such currencies are issued by offering them as payment to suppliers and employees.

# Community Currency Principles

- Every currency is a credit instrument, or *i.o.u.*
- A currency may be issued by a business, a municipal government, or an association.
- Any revenue stream may be “monetized,” *i.e.*, provide the basis for issuing currency.
- A currency is ultimately redeemable only for goods and services in the marketplace.

# Community Issuers and Their Basis of Issue

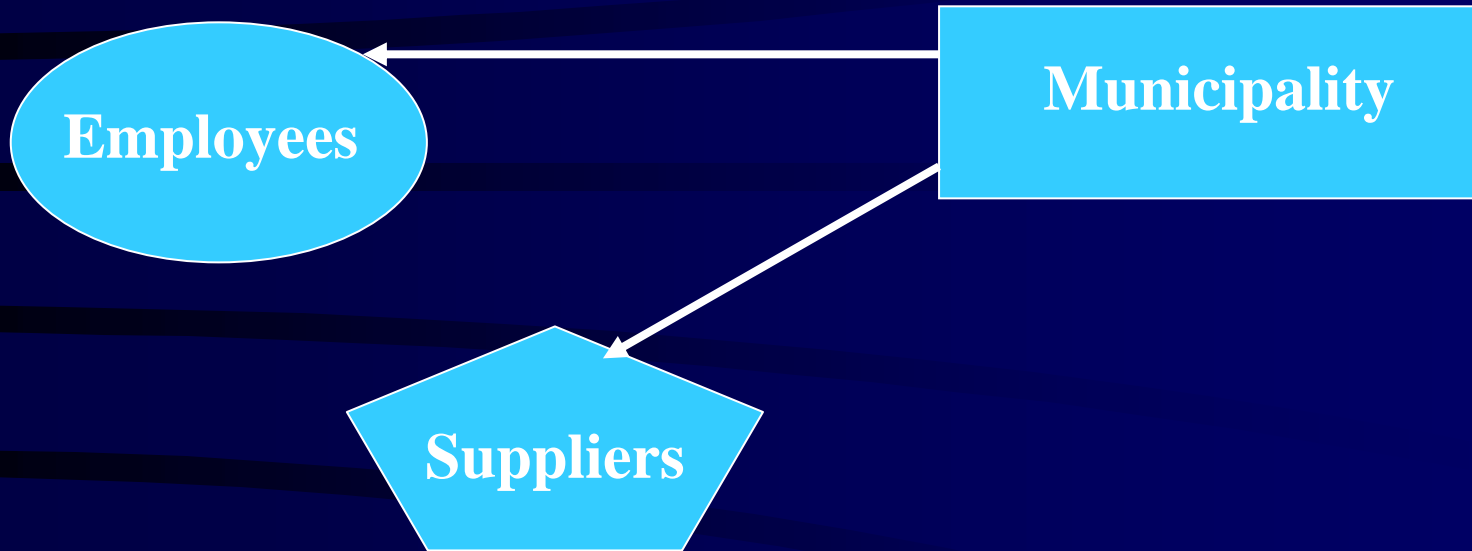
- Municipalities
  - Anticipated tax revenues
  - Fees charged for services
- Businesses
  - Capacity to provide goods and/or services
- Associations of businesses and/or local governments
  - Cooperative agreement to issue, based on any or all of the above

# Currency Issued By Spending

- The most powerful type of community currency is spent into circulation by using it to pay suppliers and employees.
- It enables the financing of operations with less reliance upon official money.
- It reduces the need to borrow money at interest for working capital.

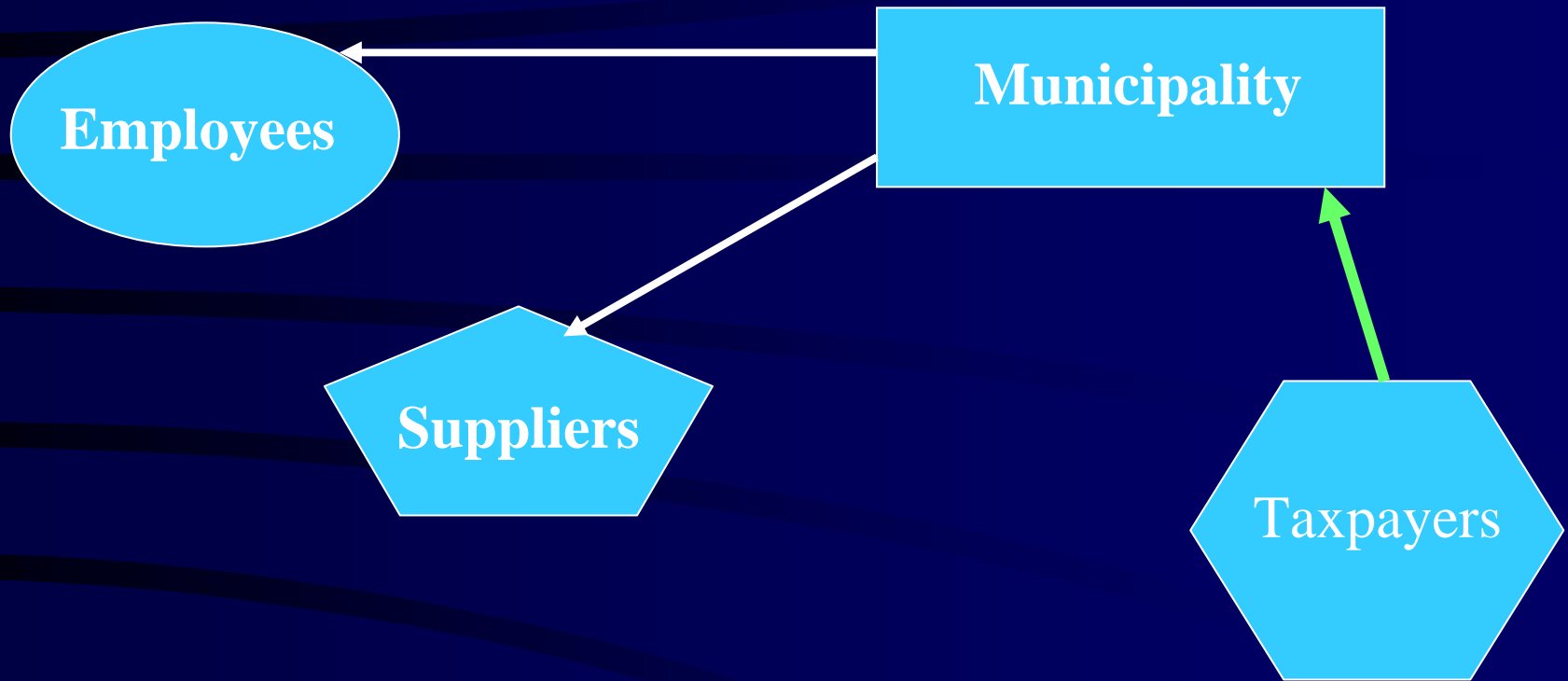
# Issuance and Circulation of Currency Credits

*Currency credits spent into circulation*



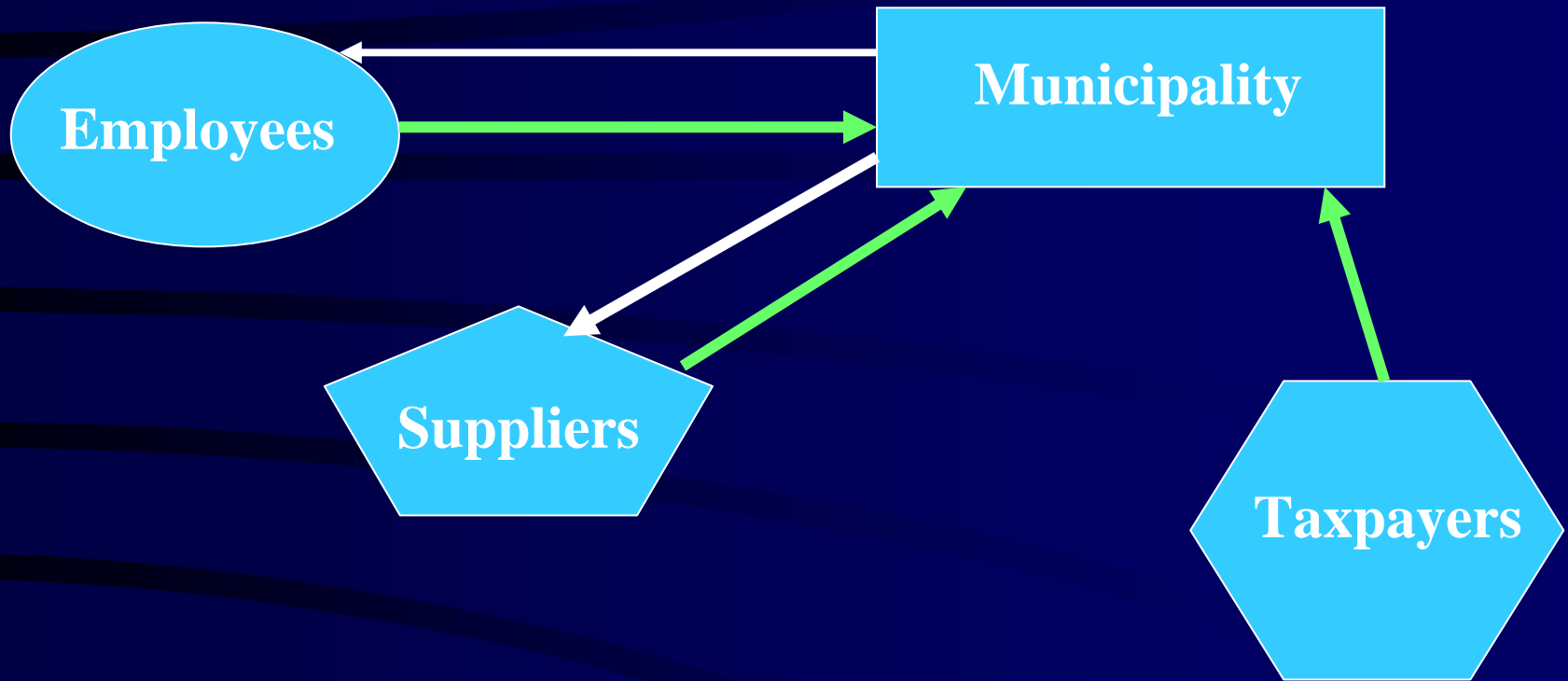
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# Issuance and Circulation of Currency Credits

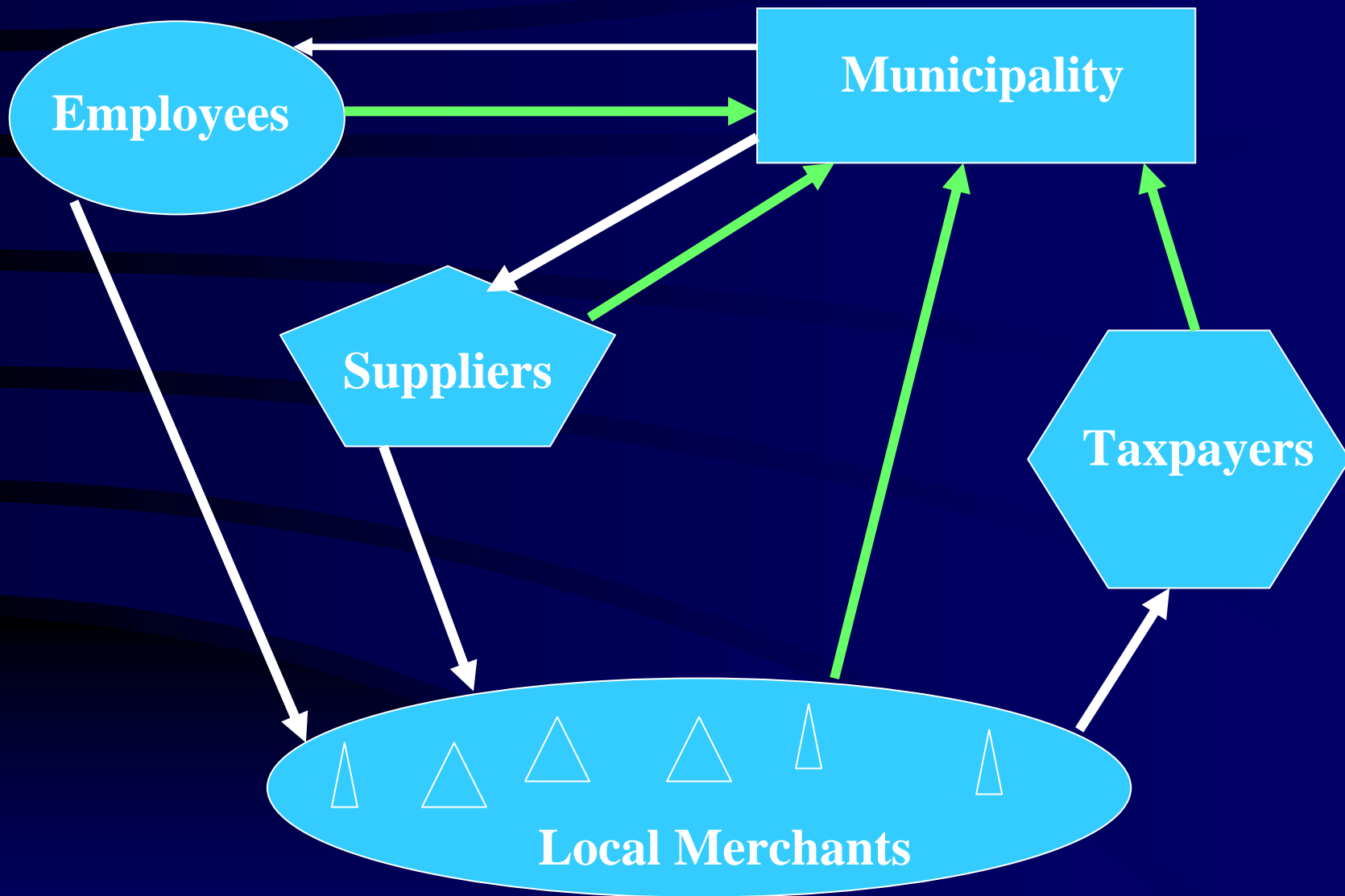
*Currency credits spent into circulation*





# Issuance and Circulation of Currency Credits

*Currency credits spent into circulation*



# Community Currency Credits – Better Than Dollars

- Future availability of dollars with which to repay loans is uncertain.
- But credits are based on always-available goods or service capacity, and are **always redeemable for goods or services at par.**

# Community Currency Credits – By and For the Community

- Credits are locally created and controlled.
- Credits remain in the local area so they promote “buy local” and strengthen the entire local economy.
- Credits are accepted throughout the community in payment for all kinds of goods and services.

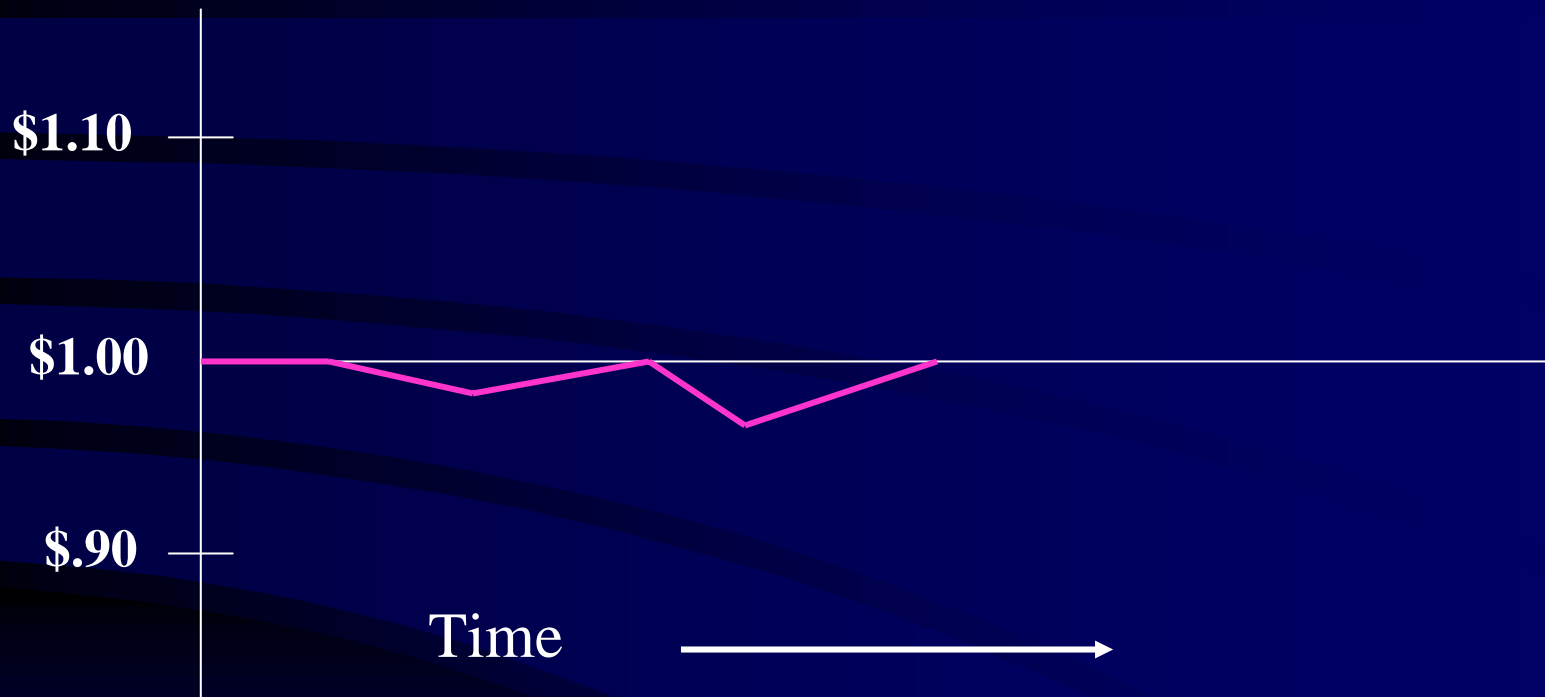
# What Makes a Currency Credible and Sound?

- For credibility, the issuer must agree to receive the currency in payment **at par** (face value).
- Others must be free to refuse the currency or accept it at a discount from par.
- Issuance must be in proper proportion to anticipated sales or revenues.
- The amount of notes in circulation must be continuously published.
- **There must be no forced circulation (legal tender).**

# How Much Currency Can Be Issued?

- The ultimate answer will be determined by the market.
- The market will reflect the perceived credibility and value of the currency.
- When the currency begins to pass at a discount, the market is signaling a need for corrective action.

# Possible Deviations From Par



# What Will Happen If Issuance Is Excessive?

- Excessive issuance will result in the notes trading below par in the market.
- As a result, employees and suppliers will refuse to accept further notes in payment, unless at a discount.
- People will lose confidence in the community currency, and in non-national currencies generally.

# Private Currencies are Self-correcting

- When a currency begins to pass at a discount, the issuer will be adversely affected.
  - It will find it increasingly difficult to spend additional currency into circulation.
  - Since it is obliged to accept its currency back at par, it will find its currency returning more rapidly.



# A Guideline for How Much Currency Can Be Issued?

- A rule of thumb based on historical experience suggests a daily reflux (redemption) rate of 1%.
- This translates into a volume of currency equivalent to about three months' sales revenues.

# How Much Can Be Issued?

## An Example

- Based on total revenues of \$40 million per annum, and applying the 1% daily reflux rule of thumb, up to 10 million credits could be safely issued based on the capacity to provide goods and/or services.

# Other Factors That Determine How Much Can Be Issued?

- The proportion of expenditures made to non-local *vs.* local suppliers may further limit the amount that can be issued into circulation.

# Typical Balance Sheet

Assets	Liabilities
Cash	Notes payable
Other current assets	Other current liabilities
Fixed assets	Long-term debt
	Equity

# Possible Balance Sheet

Assets	Liabilities
Cash	Currency credits in circulation (payable)
Other current assets	Other current liabilities
Fixed assets	Long-term debt (reduced)
	Equity

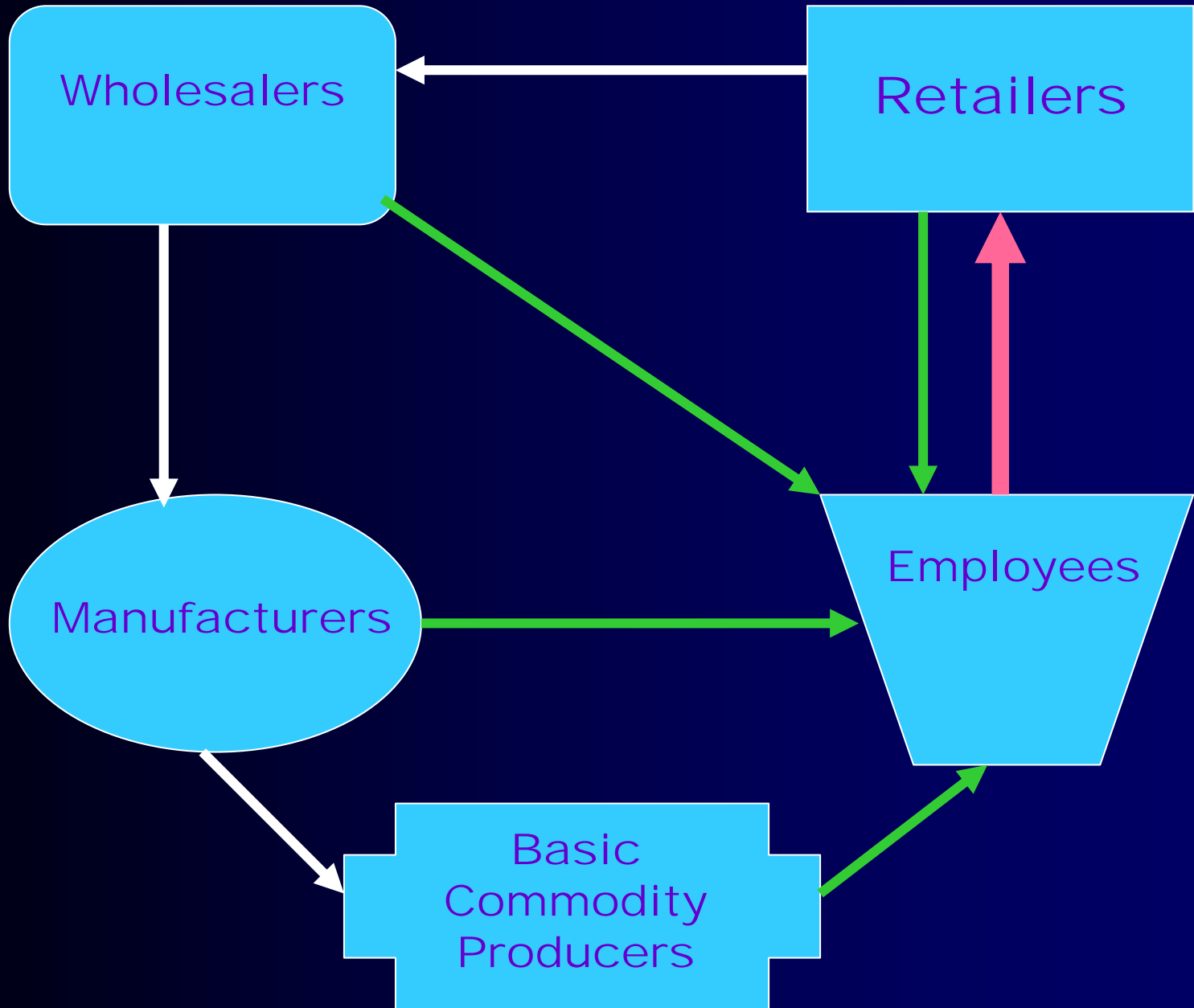
# Direct Cost Savings on Financing

- Issuance of credits enables the retirement of most or all short term debt.
- The resultant interest savings could be extremely significant.
- Example: Consider a \$3,000,000, 7 year debt at 10% interest. Interest savings could be as much as \$300,000 per year or \$2.1M total.

# Economies Develop Through Import Substitution

- Economies develop by producing more of what they use.
- What they formerly imported is now produced locally.
- This makes them more self-reliant and self-determined.
- Trade with the outside continues but on more equal terms, and at a higher level.

# Issuance and Circulation at All Economic Levels





# Employees Are Key Players

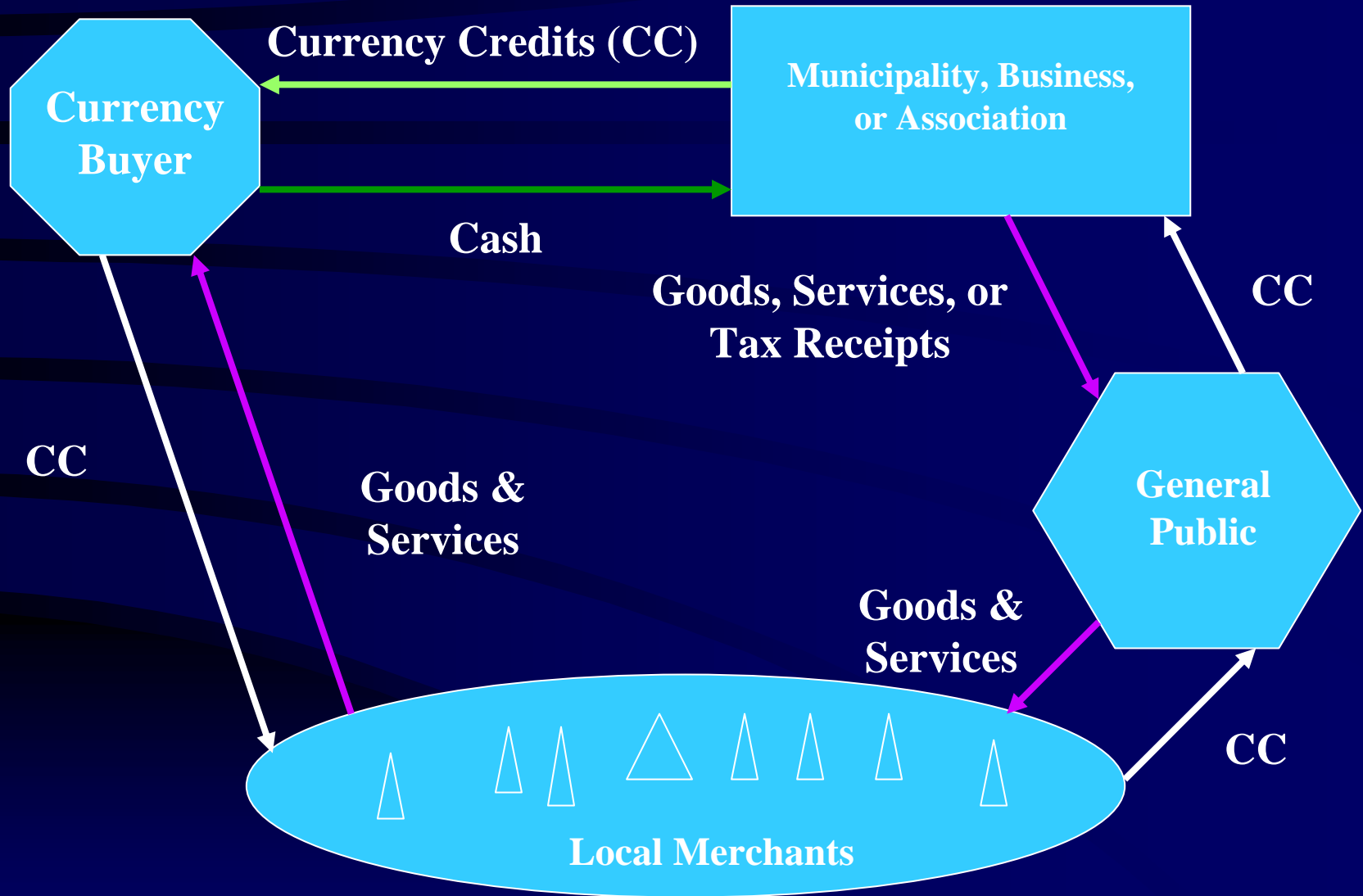
- It is human labor that provides the basis for the creation of economic value.
- Ultimately, employees must be included as issuing members of the mutual credit association.
- Community currency is a partnership of businesses and workers.

# Community Currency Can Also Be Sold For Cash

- While not as powerful a tool as a community currency spent into circulation, a currency sold for cash can offer some important advantages.
  - Can provide low-interest financing.
  - Substitutes a circulating local currency for official currency, promoting “buy local.”
  - Can provide a source of funds for charity if a redemption fee is charged.
  - Can provide a cash pool on which income can be earned.

# Issuance and Circulation of Currency Credits

*Currency credits sold for cash*



# No Need For Cash Redemption

- Community currency sold for cash need not be redeemed for cash.
- In the case of a municipality, redemption can be in the form of sanitation, water, and other services instead of cash, or credits accepted as payment for taxes.
- Business issuers can redeem community currency by providing goods or services.

# Community Currency Can Be Issued as Credits for Prepayment

- Customers prepay taxes or service bills.
- Customers receive overpayment rebate in credits with possible additional incentive, *e.g.*, 5% extra.
- Credits are accepted back later in payment for taxes and services, and accepted by many businesses in the community.

# Forms of Presentation of Community Currency Credits

- Ledger account credits
- Paper notes
- Endorsed paper checks
- Smart cards
- Web accounts with credits downloaded from / uploaded to the internet

# Advantageous Outcomes

- Community currency circulates throughout the local area, supplementing the supply of scarce official currency and bank credit.
- This enables more trading to take place, at lower cost,
- And enables local businesses to better compete with large corporate chains.

- Community currency credits remain in the community.
- CCC are readily available.
- Local businesses can create as much as they need, regardless of Federal Reserve policies and monetary stringency.
- Reduced dependence upon borrowing reduces the risk of insolvency.



# Why Community Currencies Sometimes Stagnate or Fail

- **Failure of reciprocity** (non-redemption).
- Limited number of issuers and narrow range of goods and services offered.
- Failure to penetrate all levels of the production/distribution circuit.
- Lack of accountability and transparency.