

# Healthy Money Healthy Planet

by Deirdre Kent

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## Abstract

Due out during 2005 from this New Zealand author, Part One of Healthy Money Healthy Planet covers a range of detrimental effects from having most of the country's money created by private banks as interest bearing debt. There are environmental problems, problems of growing debt as mortgages, credit card, student and other debt, and social problems caused in part by a concentration of wealth and power and the erosion of social capital. The author describes her frustrating experience getting an admission from the Reserve Bank of NZ that over 98% of the broader money supply (M3) is created by the commercial banks and asks why central bankers, economists and politicians appear keen to keep the public in ignorance about the origins of money.

Part 2 then goes on to describe some solutions, including introducing a wide range of complementary currencies, a vital change in tax systems and a new way of organic organisation which mimics nature. There is an up to date summary of the Herocard experiment, [Chiemgauer](#) in Germany, a chapter on commercial barter in New Zealand, a description of the rise and fall of LETS in New Zealand, a chapter on currencies with circulation incentive, a description of a failed attempt by a Social Credit Mayor of Hamilton to introduce rates vouchers in the late 1970s. A commercial venture to introduce Chatham Island Notes in 2000 (the islands were the first place to usher in the new Millennium) as souvenirs for tourists resulted in locals adopting it as currency but the Reserve Bank eventually barred Chatham Islanders from using the notes or even talking about them. Conclusions are drawn about criteria for successful currencies, and a classification of currencies by who is backing the promises to accept them (Appendix 1) There is a comprehensive chapter on community banking in New Zealand, and a final chapter summarising the book and making suggestions for the future.

The author believes a healthy money system is an essential ingredient of a sustainable and more natural economy.

## Preface

This book is written in New Zealand at the start of a new millennium. It is written by a grandmother whose grandchildren are not all yet born. It is written in Aotearoa, the land of the long white cloud, the land where social experiments can take place and where people can really make things happen because the population is small, well educated and resourceful.

I have always been fascinated with figures. As a five-year old I decided I would be a maths teacher, and throughout my time at school I dreamt of figures and puzzles. I like maths because it makes us think about what is assumed; from the assumptions we derive further information. I graduated in maths and loved teaching it: it's so elegant and powerful.

Then I married and found myself with four children under the age of six. When my husband and I bought our first house, we had only a 10 per cent deposit, so we had to change banks and beg on bended knee for a loan. As a young mother, I soon learnt how vital the early childhood years are in developing the brain and creating fulfilled human beings, yet I became aware that the work I performed in raising my children was not being counted in the national census. I was invisible in the economy of the country, and so were my talented women friends – defined in the statistics as 'not gainfully employed'. I was angry and puzzled. There must be something basically wrong, I thought, with the conventions used to measure the economy.

During the 1960s I listened on the radio to the ritual worship of the desirability of economic growth, but it didn't convince me. So, in 1972, when New Zealand's first environmental party came into being – the Values party – I was very excited. Here was a political party that challenged the accepted belief that more economic growth would automatically make us happier. I volunteered to be the Values party candidate for Tauranga in 1975 and eagerly delivered 'quality of life' messages. It was during this time that I met the green economist Hazel Henderson, and subsequently visited her in the USA.

It was also during the 1975 election that I met Ray Mills, a very good Social Credit candidate with whom I shared a platform. Although I couldn't repeat Ray's arguments myself, I began to get an inkling of what he was on about. It was to be 29 years before I really understood him.

During the 1980s I was a full-time campaigner for tobacco control. The large and powerful multinational tobacco companies seemed an awesome political adversary, but in fact were really no match for our flexible and determined health community. Data from health economists worldwide clearly showed that putting the price of tobacco up was the most effective way to reduce death and disease from smoking. In the early days we couldn't persuade the politicians, who reasoned that to do so would increase the cost of living. This seemed illogical to me, and my fellow campaigners and I argued that tobacco should come out of the CPI (consumer price index). It was then that I began to think about the strange way we measure our cost of living.

After a brief period in GALA (Group Against Liquor Advertising), which I founded in 1992, I began to understand the power of the liquor industry as well, and how big it really was (and still is). At that time, New Zealanders were spending three

times as much on alcohol as they were on fruit and vegetables.

Shortly after, I studied the interlocking directorships of New Zealand companies and began to understand that big businesses don't really need to lobby government – the government goes to them. And, of course, big businesses include the banks.

In the early 1990s I returned to party politics, maintaining a special interest in economics. But I left in despair in late 1995 to found and edit a newsletter called the *Indicator*. I had come to realise that Alliance leader Jim Anderton was never going to explain to the public that GDP (gross domestic product) was a limited indicator of how things were going for the country, despite repeated urging from the Green members of the campaign team. But by 1999, when he was the Minister of Economic Development in New Zealand, Anderton was using the expression 'sustainable economic development', a vast improvement on the rhetoric of undifferentiated economic growth.

In 1996 I visited Redefining Progress in San Francisco, an organisation questioning the use of GDP as a chief measure of progress. I attended a conference on local indicators in Seattle and one on sustainability in New York, then went to London to spend many happy hours in the New Economics Foundation. Inspired by the writings of economist Richard Douthwaite, I subsequently organised his 1997 tour of New Zealand.

Richard helped me to understand that the present interest bearing debt-based global economic system must continue to grow or it will collapse. Believing himself that it will collapse, he urged the shaping of local economies in preparation for the event. His message was that the fundamental property of capitalism, which makes it dependent on continuous economic growth, is the need to pay interest on borrowed



money.

Richard's enthusiasm for establishing local currencies and local banking stimulated my research into the subject. As a result, I soon began to understand a little about what money is and how communities can create their own currency and enhance their well-being by trading with it.

Then I read Michael Rowbotham's book *The Grip of Death: A Study of Modern Money, Debt Slavery and Destructive Economics*, and another penny dropped – with a massive clunk. For the first time I understood that forced economic growth happens because of the system whereby nations allow almost all their money supply to be created as interest-bearing debt by private banks. Every time someone raises a mortgage with a bank, money is created – but not the interest. It became so clear to me now why debt is growing and why there is never enough money to go round. Few people are aware that only a tiny percentage of our money supply is created by government. My training in mathematics was starting to be of use again, as was the training I had received from the epidemiologists who campaigned with me against the tobacco companies, and who had taught me to think in terms of whole systems.

With two other enthusiasts, I co-founded New Zealand Banking Reform, a short-lived organisation in Wellington that published newsletters and ran public meetings. Our goals were achieved when we received official confirmation from the Reserve Bank of New Zealand that only 2 per cent of the money we use is created interest-free and the rest is created by commercial banks.

At the end of 2001 I was privileged to spend a lot of time with Margrit Kennedy, the author of *Interest and Inflation Free Money*. Her optimism and passion were infectious, and she spread a message of hope for the development of regional currencies that are not based on interest, but on a circulation incentive. As we sat

writing in my office, we commented on how audacious it was that two grandmothers were out to transform the world's money system!

I am writing this book because I want a great world for my grandchildren. I want them to come out of tertiary education without the burden of a huge student loan. I want them to live in a world where they feel they can make a difference and where they can influence their own local and national governments if they choose to. I want them to live in abundance, not scarcity.

My adult children now work longer hours, and struggle to find their work/leisure balance. Those who aren't worried about how they will pay their rent, electricity and phone bills are worried about how they can buy a house, pay car expenses or have good-quality childcare. They worry about children eating junk food and about how to have good educational systems.

Superannuation is still a political football. Many of my retired or semi-retired friends are dependent on income from unit trusts or pension funds, which are irrevocably bound up with the unstable world economy, or else they are dependent on renting out their investment flats to tenants with insecure job futures. Some are concerned about whether their investments are being used to fund armaments, tobacco or gambling.

This book is my contribution to the conversation about how we can preserve this beautiful planet for our grandchildren. I say we can do this only by transforming *both* our money system *and* the way we organise our economic and decision-making systems. The gremlins in our counting house must also be exposed for all to see. I will argue that to have an abundant, sustainable and just economic system we need interest-free money at every level of organisation – international, national and local – to complement the scarce money we have now. Money created as interest-bearing debt

must first be complemented by money created in sufficiency, preferably money with a circulation incentive or negative interest. As with the natural systems that govern our planet, balance is essential if chaos is to be avoided.

Deirdre Kent

## Introduction

*Aroha is love if you give it away, give it away, give it away*

*Aroha is love if you give it away, 'cos it comes right back to you.*

*It's just like a magic penny, hold on tight and you won't get any*

*Lend it, spend it, give it away, and it comes right back to you.*

– New Zealand children's song

This book is about money. It's not about how to invest it, or how to earn more, but about the very concept of money. In it I argue that to halt the seemingly unending escalation of economic instability, poverty, crime and environmental problems across the globe, we need a more balanced money system. We need what I call 'healthy money'. Moreover, we need to become more aware of our money system – to enjoy monetary literacy. Just as we design houses and those houses come to shape our lifestyles, so we create money systems and money systems shape our societies. Changing the present unsustainable money system will be a very powerful action to ameliorate much of the damage it is causing.

Why am I writing this book? Because I am seriously concerned about the impending collapse of the global economy, yet at the same time I want to give hope. Economic collapse is a frightening possibility, but it is a scenario I believe we should now take more seriously. It is also a scenario that is increasingly becoming a frightening reality. In 2001, for example, we witnessed the collapse of the formerly rich country of Argentina to one where thousands are starving and 50 per cent of the population is unemployed or underemployed.

For over a decade, Japan struggled unsuccessfully with its banks' bad debts after a huge property boom collapsed in 1990 and its share market collapsed. Japan's experiment to stimulate its economy by the orthodox method of reducing interest rates has failed – a fact that has since been conceded by the Governor of the Bank of Japan. At the time of writing, Japan spends half of its government income servicing debt and is in its fifth year of damaging deflation.

Thailand's economy similarly met a dreadful fate in 1997. A credit bubble of terrifying proportions burst, and the country's baht currency, which had been pegged to the US dollar for 10 years, was depegged. The baht subsequently lost more than 50 per cent of its value against the dollar and the Thai stock market fell by approximately 95 per cent from its all-time high. Even today, says Asian financial analyst Richard Duncan, 'industrial capacity utilization is less than 55%, and the vacancy rate in the property market in Bangkok exceeds 30%'.<sup>1</sup>

Why should people worry? Because the collapse of any economy is a profoundly disturbing thought, and even more so if it involves such powerful countries as the US. Richard Duncan, who in 1993 was one of the first to warn of the impending crash in Thailand, says: 'A repetition of the pattern established in Japan and replayed in South East Asia of stock market crashes, corporate bankruptcies, bank failures and deflation is now under way in the US.'<sup>2</sup>

And who should worry? Investors, owners of real estate, workers, parents, business owners and anyone who holds a bank account should be concerned, because whether they are ready or not, they will be affected by economic collapse. If citizens can't withdraw money from their bank accounts to buy food

– as happened in Argentina in late 2001 – they riot in the streets. In December 2001, Argentina changed its president five times in two weeks. The middle class of this formerly prosperous nation certainly never expected to be reduced to such a state.

Personal suffering of these proportions must surely be a wake-up call to those who believe economists can solve all problems.

Economics is for everyone. We can't avoid it, as it permeates every field of our lives – work, food, clothing, mortgages, jobs, business, budgets, family, education, investments, wages, savings, housing and, of course, shopping. Since this discipline involves making value judgements about what is worthwhile and what constitutes progress, it is far too important to be left solely to economists, who, to put it politely, appear not to have all the answers. And unlike environmental crises, which are relatively slow to emerge, economic crises are fast-acting and dramatic; we need to be prepared for them.

This book essentially reviews existing studies of money creation, the global economy and the New Zealand economy, along with their associated effects on society and the environment. It then draws on these studies and on the experiences of communities around the world to present an alternative scenario for the future. It is divided into two sections: the first describes the history and current state of our monetary system – what I call 'sick money' – while the second looks at how we can instead create 'healthy' or balanced money systems.

**Chapter 1**, at the start of Part 1, discusses the history of banking and

interest-bearing money creation. It describes the situation in more detail as it exists today and outlines the basic problems with the system. It then goes on to discuss the role of reserve banks and the government, the power of banks and cycles of boom and bust, and gives definitions of money supply.

In **Chapter 2** I move on to focus on the financial problems that are caused by our economic system. Here, I look at the growing gap between rich and poor and at the instability of economies on a global scale, then I go on to focus on the debt spiral in New Zealand. **Chapter 3** then looks at the environmental and social consequences of the unhealthy money creation system. It describes some of the global environmental crises we face and the social impact of globalisation, and then examines more specifically social issues within New Zealand.

**Chapter 4** defines globalisation and outlines the negative effects of corporate globalisation. It lists the global corporations that influence nations and looks at the rise of the anti-globalisation movement. In **Chapter 5** I discuss GDP and the way monetary values are placed on everything in life, and outline why this is a poor way to measure true progress. Some alternative economic indicators are discussed.

At the end of Part 1, in **Chapter 6**, I answer the questions of those who support the current economic system and explain why change is needed.

**Chapter 7**, at the start of Part 2, revisits the concept of money. No discussion about money can be complete without thinking about organisation, so in **Chapter 8** I outline the principles of ecology and suggest how they can be applied to economies and to the organisation of money systems. In ecological money systems, many levels of organisation co-exist, and each subsystem, while being complete in itself, is also part of a larger system. Instead of a global 'monetocracy', or a financial monoculture based on a dominant country's currency, ecological differentiation is recommended. According to this principle, New Zealand could adopt a proposed ANZAC currency *and* keep its own currency. A one-size-fits-all solution, a globe with only two or three currencies, is contrary to nature's principles. It is complexity and diversity that bring stability, not a monoculture with centralised power.

**Chapter 9** summarises the reasons for complementary currencies, and **Chapters 10 to 14** describe them in their ever-varying array of designs and purposes. Complementary currencies include green dollars (or LETS), time dollars or time banks, bought currencies and voucher systems. They are now classified along several dimensions, but they all supplement the national currency, build community and benefit the users. In particular, I discuss the principle enunciated by a German businessman – Silvio Gesell – in Argentina in the early 20th century. Gesell proposed that money should 'decay' like goods and services, and that a hoarding tax, now sometimes described as a 'circulation incentive', be imposed on those who hold money. Money, like energy, should never stagnate but instead should flow freely. Because it



provides a benefit for seller and buyer, money performs a social good wherever it goes.

**Chapters 15 to 17** classify complementary currencies and discuss what has been learnt from worldwide experience. **Chapter 18** discusses policy implications such as land value tax, and **Chapter 19** advocates currency diversity. **Chapter 20** describes community banking in New Zealand. Finally, **Chapter 21** draws these discussions together, speculates on prospects for the future and urges readers to experiment with new currencies. If we are wise, a complex mesh of safety nets will then be in place for the time when the current unstable money system collapses.

#### Notes

1 Richard Duncan, *The Dollar Crisis Causes Consequences and Cures*, Singapore: John Wiley & Sons (Asia), 2003, p41.

2 Duncan, *The Dollar Crisis Causes Consequences and Cures*.

## Part 1: Sick Money

### 1 A Diseased System

*I am afraid that the ordinary citizen would not like to be told that banks, or the Bank of England, can create and destroy money. The amount of money in existence varies only with the action of the banks in increasing and decreasing deposits and bank purchases.*

– Rt. Hon. Reginald McKenna, former UK Chancellor of the Exchequer and former  
Chairman of the Midland Bank<sup>1</sup>

This chapter looks back at the roots of today's system of money creation and the origins of modern banking. It then goes on to explain how the process continues today, focusing in particular on the situation in New Zealand.

#### A Brief History

Up until the Middle Ages, the most common form of money in use in the marketplace in Europe was gold, either as coins or in bars. Because gold can easily be stolen, merchants needed a safe place to keep their supplies. At the time, goldsmiths were the only people with secure vaults, and so businessmen started to store their gold with them. Once they had made a deposit of gold, the owners received a note that promised to 'pay the bearer on demand the sum of...'. It wasn't long before people started to exchange these paper notes with each other, as they were far more convenient to use than heavy gold ingots, and were indeed considered 'as good as gold'.

After that, it didn't take long for the goldsmiths to notice that – most of the time at least – the owners of the gold stayed away from the vaults. At any one time, perhaps only a tenth of the promissory notes were returned. History doesn't record the name of the first shrewd goldsmith who began to issue more notes than he had gold. But he simply printed more notes and lent them into existence, then charged interest on the loans and got away with it. If all his depositors were to come at the same time for their gold, he would, of course, be discovered, but in practice this seldom happened. To protect himself, he kept a certain fraction of the original gold in reserve so that he could pay some of the depositors on demand. In effect, this meant that the amount of paper money circulating was often nine or ten times the amount of gold actually held in the vaults.

Then they discovered that 'rowing' the economy between 'easy' money and 'tight' money could create extra profits. When they made money easier to borrow by lowering interest rates, more people took out loans and so the amount of money in circulation expanded. They would tighten the money supply by increasing interest rates, thereby making loans less attractive and more difficult to obtain.

What happened then is effectively the same as what happens today. A certain percentage of people could not repay their previous loans and couldn't take out new loans to repay the old ones; therefore they went bankrupt and had to sell their assets to the goldsmiths or at auction for 'pennies in the dollar'. Today, we call this up-and-down rowing of the economy the 'business cycle', and the result often is that a certain percentage of those who have borrowed for investment, for business or for other reasons are losers in each cycle.

Paper money, deposited in banks and supposedly backed by gold, began then to take on characteristics that the gold did not have, in that it increased when you left it there. By an accident of history the practice continues to this day as fractional reserve

banking, a term used to dignify what some call 'the world's biggest confidence trick'.

Not all banks throughout history have, however, operated like this. In contrast to fractional reserve banking, the banks of Amsterdam and Hamburg in the 17th century acted as warehouses, fully backing all of their receipts by the assets deposited – gold and silver. Such banking is called '100 per cent reserve' banking. In this system, it was a requirement that banks held 100 per cent of the money in reserve for the customer in case he or she should need it. Monetary reformers have always favoured 100 per cent reserve banking, and are supported by the writings of economists such as Irving Fisher, author of *100% Money*.<sup>2</sup>

### The System Today

Fractional reserve banking continues today with the approval of governments, but it is now dignified by euphemisms such as 'managing risk'. Banks are essentially printers of warehouse receipts that circulate as if they were genuine, fully backed notes. When most people go to the bank to get a mortgage, for example, they think the bank is taking the money out of its deposits in order to lend it to them. This is not true. The bank simply *creates* the extra money and starts charging the borrower interest. Once the borrower has paid back the loan, the bank effectively cancels that money – it ceases to exist. And, of course, the interest payments stop at that point.

Up until 1984 New Zealand had a fractional reserve banking system whereby the commercial banks were required to keep a certain fraction of their money as 'reserves', in case people wanted to make withdrawals. Let's take a closer look at how this worked.

Suppose, say, that Elizabeth borrows a mortgage \$100,000 from Bank and the fractional reserve has been set at 10 per cent. This means that the bank can only create \$90,000 of new money: 10 per cent of the deposit, or \$10,000, must be put into reserves.

Elizabeth then buys a house from Craig for \$100,000. Craig puts the \$100,000 into

Bank B. This is called a 'deposit' and this new money is now counted in the measure of the total money supply. The presence of that deposit in the balance sheets of Bank B allows the bank to create new money to the tune of \$90,000 for the next borrower, Jill. She takes out the loan and puts it into Bank C. Bank C can then create \$81,000 to lend to Peter, who pays Josie, who puts it in her bank. And so on. In the end, the money may have passed through 30 banks and the original \$100,000 deposit has created hundreds of thousands of *new* dollars. This is called the 'money multiplier effect'. Thus it can be seen that the banks act together to create huge supplies of new money.

New Zealand's commercial banks were deregulated in the late 1980s, however, and now set their own fractional reserves. This makes things much simpler for them, as they are now able to lend much more than they ever could before.

#### DIAGRAM TO COME – ROBBIE HAS HARD COPY

##### Assets Balance Liabilities

Before any transaction is carried out at a bank, the asset and liability sides of its ledger are equal. To create the new money for a loan, two entries are entered on the bank's ledger, one on the asset side and one on the liability side – double-entry bookkeeping.

The new 'asset' for the bank is the new loan – say of \$100,000 – owed by the borrower, who has promised to divert a significant proportion of his or her earnings to repay the loan with interest. The new 'liability' for the bank is the new \$100,000 'credit' put into the borrower's current account, which the borrower will soon after withdraw and spend.

So, at the end of the handshake, the bank's assets have increased by \$100,000 and at exactly the same time the bank's liabilities have increased by \$100,000. The ledger balanced at the beginning, and at the end.

What happens when the borrower spends the new money? As described above,

the money spent by the borrower will show up somewhere else in the banking system as a new deposit. That bank will use it to create new money to lend to another borrower – say, someone who is building a house. That borrower then pays the builder, who puts it in his or her bank, which in turn can now create more money. And so the process continues. This process of depositing and lending is called ‘asset sheet expansion’.

The reverse happens when the capital of a loan is repaid. The amount the borrower owes the bank decreases and so does the money supply – money is effectively destroyed. When the interest on the loan is repaid, it is added to the bank’s equity, or ‘shareholders’ funds’.

Since the banks’ accounts always balance, the total value of deposits held always balances the total value of money lent out. This is how banks attempt to justify the claim that they ‘lend out depositors’ money’. But this isn’t really true, as in fact they create new money when they lend it. There is no contradiction here, because the banks create the deposit at the same time as they create the loan. It is such a clever scheme that British economist John Kenneth Galbraith commented, ‘The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent.’<sup>3</sup>

### The Two Intertwined Actions

When banks create money there are two closely related actions being performed and we should think of them separately.

First, for banks to lend money out at interest and not provide the money to repay that interest puts them at an unfair advantage. The borrowers as a group cannot repay the principal and the interest without someone being forced to go back to the lenders for more money. This is the debt spiral. Don’t worry if you don’t understand this yet; we will look at it in more detail below.

Second comes the bit where bankers, central bankers and economists tell you something rather short of the truth. Banks almost invariably explain they are 'lending' out their deposits, claiming that the money already exists. In fact, what really happens is that this deposit is created at the very moment the loan is created. As we have seen, this dates back to the moment when goldsmiths first realised that they could create more receipts for gold than they had actual gold in their vaults to back those receipts. In the 16th century this practice, although widespread, was illegal. It was only with the establishment of the Bank of England in 1694 that the idea was given legal status and money creation was monopolised by private banks. And, while money is no longer backed with commodities such as gold, the practice is still as deceptive as it was in those days.

### Consequences of the System

There are four primary consequences that follow from allowing banks to create money as interest-bearing debt. These are each dealt with below.

### Growing Debt Spiral

Perhaps the most fundamental problem associated with our current system of money creation is that we, as a group, will fall further and further into debt. This doesn't mean that everyone will descend into debt. Some will and some won't, but as an aggregate, the debt increases. Banks only create the principal, not the interest, which we must also repay to them. Hence, the debt spiral grows as money is created, through debt, to pay this interest.

Let's look at an example of this, using small sums of money and let's also include the common practice of saving. Suppose a bank lends out \$100 to each of ten families at 10 per cent interest. To repay the loan, the families are required to grow crops and produce goods to sell. At the end of the year, each family is expected to pay back their

principal of \$100, together with interest of \$10, a total of \$110. So they set to work.

There is now \$1000 in circulation, but the system requires \$1100 to be paid back at the end of the year to the bank, hence there is an inescapable shortfall. This shortfall actually works out at slightly more than the total outstanding interest, because some families are able to make savings and take money out of circulation, as we will see below.

Continuing with our example, one family does very well and earns \$210 – enough to pay back the \$110 that is owed and still have \$100 over to save. Seven families earn exactly \$110 and pay it back to the bank. The ninth family, however, doesn't succeed in selling all its produce and has only \$20 to pay back to the bank. The tenth family, meanwhile, has not sold anything and has no money at all with which to pay the bank. So, two of our families are in trouble.

What happens next? The bank offers to lend these families *more* money so that they can pay back their debt. The ninth family borrows another \$90 and the tenth borrows the whole \$110. This means that at the end of the first year the bank lends the group a further \$200. These two unfortunate families are forced into debt *because the mechanics of the system are such that someone has to be a loser.*

Even if the first family had used its extra \$100 to buy the goods of the ninth and tenth families, these two families would still be \$100 down between them, because the system was \$100 short from the beginning. There simply wasn't enough money in circulation for all to win. At the start of the year there was \$1000 in the economy, but by the end of the year the total money supply was not \$1100, but \$1200, because the first family had effectively kept \$100 out of circulation as savings.<sup>4</sup>

The total money supply must therefore increase each year by at least the amount of interest that has to be paid. In our example, after one year the ten families collectively owe \$1200, whereas at the beginning of the year they owed only \$1000. As a group, they have gone further into debt. After two years, they will be even further in



debt, hence the collective debt continues to grow. Note, however, that the debt isn't evenly distributed, because the first family has succeeded in becoming a net lender. The ninth and tenth families end up having to pay interest on interest. This is called compound interest and it grows rapidly. Putting our simplified example into the context of the real world, this is what is happening now with heavily indebted poor countries, which are saddled with huge debts and always have to borrow still more from the IMF (International Monetary Fund) to service that debt. On a smaller scale it is the 'loan sharks' that come in to prey on the losers and charge high interest rates supposedly to get the losers out of trouble.

Of course, a real economy is larger than our ten-family experiment. In any economy with a modern banking system, people and firms *must* collectively go further into debt to avoid a collapse of the money supply and the financial system. It also means that, collectively, loans can never be repaid, even though many individuals may succeed in getting out of debt.

The debt spiral becomes even clearer if we apply the real world banking system to a game of Monopoly, in which the bank 'lends' out money to the players *at interest* instead of simply handing it out. The game simply wouldn't work. The bank would quickly bankrupt itself, as it would end up giving out more and more money to the players to enable them to repay their loans.

### Widening Gap Between Rich and Poor

The second consequence of the system is that it continuously transfers money from net lenders to net borrowers, thus widening the gap between rich and poor. In the example above, we saw that the saving of \$100 by one family (and its placement in a bank deposit account) reduced the available money supply by \$100. That shortfall had to be made up with more debt. A minority of people are net lenders; most are net borrowers. The money supply system we now have widens both the wealth differential between

individuals within countries and the wealth differential between countries. In addition, interest rates further widen the gaps because money is constantly transferred from the poor to the rich.<sup>1</sup>

### Transfer of Money Overseas

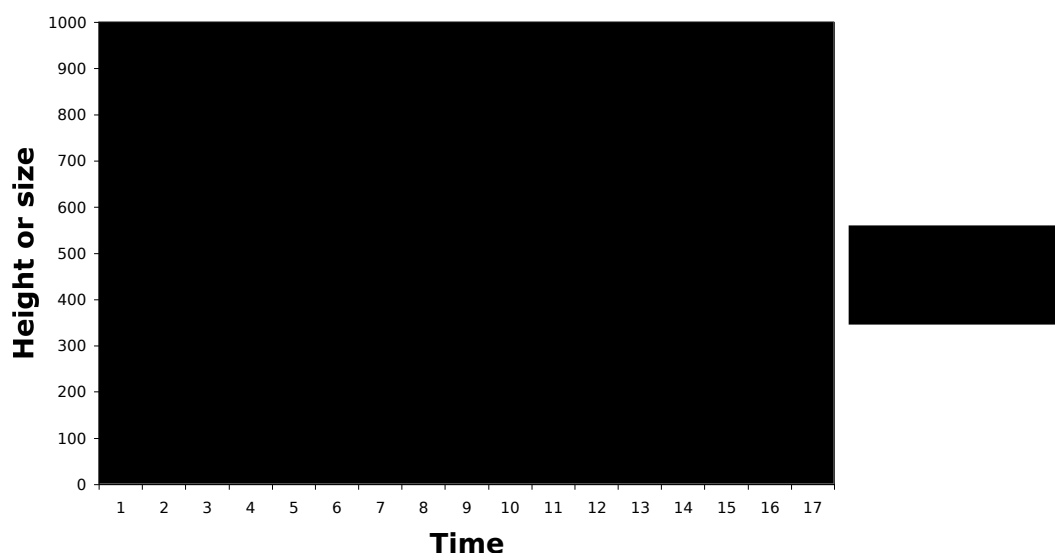
In the case of New Zealand, the money supply system also results in the transfer of money overseas, and hence makes the country vulnerable. Since most New Zealand banks are subsidiaries of banks owned in Australia or the UK, we are borrowing money from offshore lenders for our mortgages and loans. As a result, every year we send money overseas in interest. When a country becomes more indebted, big investors look at its national accounts and start to predict that the value of its currency might decline in the future. The investors therefore sell off their holdings of that currency, causing it to drop in value. This is called an 'attack' on a currency. So, when we transfer money overseas in interest payments, we become vulnerable. As at June 2001, New Zealand was sending over NZ\$5.2 billion a year overseas in interest repayments – a sum that would have virtually doubled our health spending at the time.<sup>5</sup>

### Instability

Finally, the process of charging interest creates a mathematically unstable money system. The system is unsustainable because the interest charged is compound interest. In 1990, Heinrich Haussman calculated that if a single penny had been invested at the birth of Christ, at a 5 per cent interest rate, it would buy 134 billion balls of gold equal to the weight of the earth at modern gold prices.<sup>6</sup> Every now and then, one of three things happens as a result of such unsustainable growth: war, a social revolution or economic collapse. As Margrit Kennedy explains, the natural growth curve of, say, a human being or a plant rises rapidly at first, then slows down and ultimately flattens out.<sup>7</sup> Exponential growth curves, such as those shown by compound interest, are

simply unsustainable in a finite world.

### Three Types of Growth



#### The Role of the Reserve Bank

Reserve banks (also called central banks) manage the rate of money creation, or in other words the lending risks taken by the commercial banks. The first reserve bank to be established was the Bank of England in 1694. In its early days of business the bank lent money at interest to the government, but it was also entitled to lend to the public an equivalent amount without the gold to back it. There was therefore twice the number of notes circulating as there was gold in the bank to back it. Over subsequent years, the bank found that it could lend between four and six times the value of the bullion reserves in its vaults, equivalent to fractional reserves of 25 per cent and 16.67 per cent respectively.

In New Zealand, following its establishment in 1934, the Reserve Bank used to set

the fractional reserve, which was as high as 10 per cent. In the late 1980s, however, Labour's Minister of Finance, Roger Douglas, deregulated the country's banking system and removed all reserve requirements. In other words, he let each commercial bank decide for itself how much money to keep as a reserve. The process by which this is checked is dignified by the name 'prudential supervision'. Nowadays, the reserve fraction for a New Zealand commercial bank is therefore likely to be very much lower than the previous 10 per cent. The banks do, however, have to comply with certain 'capital adequacy requirements' recommended by the Bank of International Settlements and enforced by the Reserve Bank of New Zealand.<sup>8</sup>

Such a system is fragile and prone to calamity. No bank can withstand a 'run', whereby all the depositors come for their money at the same time. Unfortunately, the general public, ignorant of the mysteries of banking, still believes that their money remains in their bank. Only when a banking crisis arises, as in Argentina in 2001, do people realise the awful truth – their money is simply not available to them.

### Government and the Banks

Most people think governments create our money, and they do: the Reserve Bank of New Zealand, for example, which is owned by the government, creates all our notes and coins. This cash, however, now constitutes less than 2 per cent of the country's total money supply. The money is healthy, interest-free money that has been created by the people for the people.

But when a government has to get money for, say, running the education system or funding superannuation, it gets it either from taxes or by borrowing it. If the government chooses to borrow, it usually does so by selling government bonds. These

pieces of paper grant the bearer the promise that he or she will be paid the value of the bond, plus interest, by a certain date. The commercial banks then simply create the money to buy the bonds. So essentially the government delegates money-creating rights to the commercial banks of the country. Effectively, when a government wants money it goes to the banks rather than creating the money directly. The banks create the money for the government and charge the government interest on that money.

The central, or reserve, bank of a country has two essential functions. The first is to serve as a banker's bank – in other words, a bank that gives credit to the commercial banks and also holds their official reserves. The reserve bank's second function, as discussed above, is to adjust the money supply, using its constitutional power to create reserves or to regulate the commercial banking system's ability to manufacture money.

The Reserve Bank of New Zealand does have some controls over the rate of lending, but its tools are very limited; nor does it have access to all the internal memos of the private banks regarding their lending policies. This leaves a great deal of control in the hands of the commercial banks. The only tool the Reserve Bank has is, essentially, the ability to alter the overnight cash rate. This is the rate the Reserve Bank charges the commercial banks for lending them money. Every night, the commercial banks must settle with each other, and sometimes one will need to borrow from the Reserve Bank to stay balanced. Each bank has an account with the Reserve Bank for this purpose. Thus the Reserve Bank can speed up or slow down the rate of borrowing by altering the overnight cash rate.

The official role of the Reserve Bank of New Zealand is to keep inflation under control. The person appointed as governor of the Reserve Bank is legally obliged to work to this end, and can be dismissed if the inflation rate goes outside the band of 0–3 per cent. The Reserve Bank monitors the total bank ledger of all the banks together. As long as one bank's rate of lending isn't markedly higher than its competitors, there is no restriction on how fast the money supply can expand.

But what power does New Zealand's government have? The Reserve Bank has a board, whose minutes are secret, yet it is listed in the white pages of the phone book because it is separate from government. The Reserve Bank's governor is responsible for 'monetary policy', while the government is responsible for 'economic policy'.

The money supply and inflation of a country are two key economic indicators. Government essentially has little control over these indicators, unless it can persuade the Governor of the Reserve Bank to carry out some of its recommendations. So, despite its important role in keeping prices stable, the Reserve Bank is not accountable to the people through the people's elected representatives. Although the Reserve Bank reports to Parliament, MPs are essentially powerless to influence it in any way. Governments can't expand or contract the money supply.

Bernard Lietaer, author of *The Future of Money*<sup>9</sup> and himself a former central banker, says the function of the central bank is to keep money artificially scarce as the commercial banks need this arrangement in order to maximise their profits. When interest rates are low, the rate of lending increases. Banks' profits are proportionate to the interest rate multiplied by the value of the loans, and so this must be maximised.

### The Power of the Banks

Are there any other problems with allowing banks to create the money? Yes, there is the problem of power. The creation of money gives power to bankers, because it allows them to decide who gets a loan and how much money will be loaned out. Since banks only want to lend to those who are most creditworthy, they prefer to lend to companies promising big profits. Big profits lie in financial speculation, property deals, agribusiness, huge construction projects and the like.

So governments no longer control the money supply. While I don't wish to appear to support conspiracy theories, I must agree with US President James A. Garfield, who said, 'Whoever controls the volume of money in any country is absolute

master of all industry and commerce.’<sup>10</sup> Because of this awesome power, international bankers can create booms or crashes, and can choose to support governments or undermine them. And here are the chilling words of someone who wielded this power in 1790, wealthy Frankfurt banker Mayer Amschel Rothschild: ‘Let me issue and control a nation’s currency and I care not who writes the law.’<sup>11</sup>

Also in 1790, in the USA, a powerful adviser to the first Secretary of the Treasury, Alexander Hamilton, proposed a bill to Congress calling for a new privately owned central bank. Interestingly, one of Hamilton’s first jobs after graduating from law school in 1782 had been as an aide to Robert Morris, the head of the Bank of North America. Hamilton had written a letter to Morris the previous year, saying: ‘A national debt, if it is not excessive, will be to us a national blessing.’<sup>12</sup>

### Boom and Bust

Bound up with debt-money creation is a cycle of boom and bust, made worse by the deregulation of banks. As discussed above, since the late 1980s banks in New Zealand have been able to set their own reserve ratios. Now recall how a 10 per cent reserve ratio means that money can be multiplied ten times by the banks. Well, with a lower reserve ratio the money multiplier effect becomes even more potent. A lot of money is created very quickly, and when inflation sets in the Reserve Bank raises interest rates and the whole process is reversed. This results in a roller-coaster ride euphemistically called the ‘business cycle’, which is essentially boom followed by bust.

Many US presidents, although unaware of the possibility of an alternative to centrally created money, have issued strong statements about the money-issuing power of banks. Thomas Jefferson, for example, who for many years fought with the banks, warned: ‘If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks ... will deprive the people of all property until their children wake-up homeless on the continent their fathers

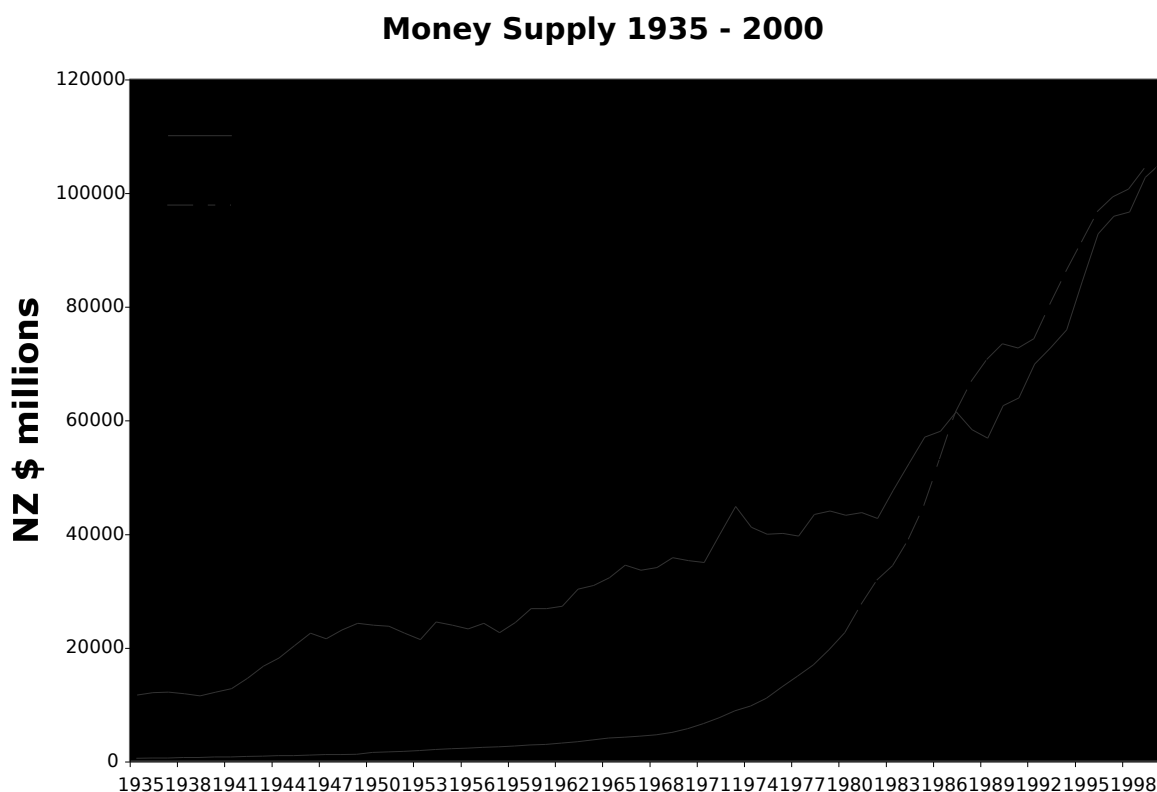
conquered ... The issuing power should be taken from the banks and restored to the people, to whom it properly belongs.<sup>13</sup>

If business confidence is high, the money supply can increase rapidly. But during a bust period someone has to lose; in fact, there will be a parade of losers. As there is never enough money in the economy to pay the interest on all the loans, it is like a game of musical chairs – there are never enough chairs. If enough businesses go under, borrowers default on mortgages and the banks call in the loans – in other words, they call for their immediate repayment. At a mortgagee sale, investors buy up property cheaply and make money out of it – a common result of property crashes.

Early in 2000, Jim Anderton, New Zealand's Minister of Economic Development at the time, went on record as saying that he didn't want Don Brash, then Governor of the Reserve Bank, to raise interest rates to 'slow down' the economy. Anderton said that high interest rates attract money away from investment and jobs. Essentially, when the economy grows, inflation looms and the Reserve Bank therefore raises interest rates. Then, just when everything seems to be going fine, the Governor of the Reserve Bank has to make the absurd choice between favouring the investors who want higher interest rates, or favouring businesses and homeowners who want the opposite.

Most people turn off economics at this point, perhaps secretly suspecting such a system must have been invented by fools. Why, they think, can't there be a win-win situation for young and old, for investors and homeowners, for importers and exporters? Surely humankind can design an inflation-free economic system, one that doesn't go on roller-coaster business cycles, first favouring one side then the other, but never both sides together? For that is the nature of the interest-bearing debt-based money system we have, an absurd situation of Alice-in-Wonderland choices, boom and bust cycles, and winners and losers.





Source: Shepherd *et al.*, Reserve Bank of New Zealand. There is a series break in 87/88, when some smaller deposit takers were removed from the M3 survey.

### Definitions of the Money Supply

This is a convenient point to describe how the Reserve Bank of New Zealand classifies the various sorts of money and to explain how I use the term 'money supply' in this book. A quick look at the bank's website, [www.rbnz.govt.nz](http://www.rbnz.govt.nz), shows how complex money is these days, what with EFTPOS (New Zealand's point-of-sale payment system using an electronic card), cheques, overseas investors bringing money into the country, and so on.

Below are the bank's definitions of some of the various monetary aggregates, together with their values as at the time of writing:

**Currency in circulation** At June 2003 this was approximately NZ\$2.9 billion. Some of the currency in circulation is in the hands of the public and some is in the possession of the various national banks.

**M1** This is the sum of the notes and coins put into circulation by the Reserve Bank, plus the transaction balances (or cheques), less the total of all the other funding, less the inter-institutional transaction balances. In June 2003, the total M1 stood at NZ\$19.1 billion.

**M3** This is the sum of the notes and coins in circulation, plus NZ\$ funding, less New Zealand institutional claims, less government deposits. As of August 2003, M3 was NZ\$131.4 billion. This is the broadest measure of money supply commonly used and examined, and is approximately equivalent to the sum that New Zealand residents have available to them to use as a means of exchange with each other, be it in EFTPOS, cash or cheques.

**M3R** This is the money supply of residents, which is the M3 minus the NZ\$ funding from non-residents. In June 2003 it stood at NZ\$104.5 billion.

When I talk about 'money supply' or 'money', I am talking about the M3. The notes and coins in circulation are only a tiny fraction of the M3, and a great many transactions are by direct debit, EFTPOS or cheque. As mentioned above, in August 2003 New Zealand had a money supply (M3) of NZ\$131.4 billion, but of this only NZ\$2.4 billion was in the form of notes and coins in the hands of the public. This means that only 1.8 per cent of the money in use by the public was legal tender, money created by the Reserve Bank of New Zealand. So where did the rest come from? The answer is that more than 98 per cent of the country's money supply is created by

commercial banks and is lent into existence as mortgages, government loans and corporate loans.

What we are using every day when we present our EFTPOS cards or pay our rates or rent by direct debit is mostly bank-created money. In the next chapter I go on to look in more detail at the effects such bank-created money has in the form of debt, the growing gap between rich and poor, and global instability.



## 2 The Financial Symptoms

*And he would fain have filled his belly with the husks that the swine did eat; and no man gave unto him.*

– Luke 15: 16–17

In Chapter 1 I looked at how our unhealthy money creation system operates and discussed the consequences of this system in broad terms. In this chapter I go on to focus in more detail on these consequences as they relate to the world situation and to New Zealand – namely the widening gap between rich and poor, and the instability of economies. In addition, I will look at the growing debt spiral in New Zealand, the flow of New Zealand dollars overseas, and why we, as a nation, seem to have been kept in the dark by banks, economists and even politicians.

### Widening Gap Between Rich and Poor

The transfer of money from net borrowers to net lenders can be viewed both in terms of individuals and of countries. The state of our system is such that those countries and individuals that fall into debt end up having to borrow more and more to service their debt, and the money they do manage to pay flows into the hands of the rich. To put this into context, US\$40 billion a year flows from developing countries to the developed countries, and the developing world now spends US\$13 on debt repayment for every US\$1 it receives in grants.<sup>1</sup> By 1998, the heavily indebted poor countries had international debts of US\$214 billion – a huge sum for them, but equal to only 4 1/2 months of western military spending.<sup>2</sup> As a result of the debt crisis, 7 million children die each year.<sup>3</sup>

And nor are things getting any better. In 1960, the wealthiest 20 per cent of the world's population, living in the richest countries, had 30 times the income of the poorest 20 per cent; in 1997, the figure had increased to 74 times.<sup>4</sup>

Not only are the rich countries getting richer and the poor getting poorer, but the gap between individuals is widening too. On 18 December 1999, the New Zealand newspaper *The Dominion* featured a picture of Bill Gates under the title 'The Rich Get Richer'. It said his personal stake in Microsoft of US\$85 billion was already greater than the GDP of many countries. To put this in perspective, the article pointed out that the GDP of Portugal was \$US85 billion while that of Ireland was US\$81 billion.<sup>5</sup> Martin Khor, Director of Third World Network, an independent research organisation based in Malaysia, writes:

*'Economic gains have benefited greatly a few countries, at the expense of many,' says the United Nations Development Program (UNDP). The old cliché, that the poor get poorer and the rich richer, is unfortunately well backed up with fact after fact. In the past three decades, 1.6 billion people were left behind or became more poor. 'And the very rich are getting richer,' the UNDP report says. To illustrate, it estimates that the assets of the world's 358 billionaires exceed the combined annual incomes of countries accounting for 2.3 billion people, or nearly half (45%) of the world's people. UNDP chief, Gus Speth, concludes that the world has become more economically polarised, and 'if present trends continue, disparities between industrial and developing nations will move from inequitable to inhuman'. A commentary on these statistics in the London-based daily, The Guardian, was even more frank and scathing. Noting in bold headlines that '358 people own as much wealth as half the world's population', the paper's journalist Victor Keegan called it 'highway robbery by the super-rich'.*

*Using data from Forbes magazine's annual survey of the world's richest people, Keegan shows that Microsoft owner Bill Gates tops the list with personal wealth of US\$18 billion, 'enough to purchase half a dozen poor countries'.*

*The Human Development Report reveals that the world's total economic income (global GDP) is US\$23 trillion, of which only \$5 trillion (or 22%) goes to developing countries, although they house almost 80% of the world's population. And the North–South gap is worsening. Between 1960 and 1991, the richest 20% of the world's people increased their share of total global income from 70 to 85%. The poorest 20% had their share fall from 2.3% to a miniscule 1.4%. In 1991, more than 85% of the world's population received only 15% of global income.<sup>6</sup>*

In New Zealand, wealth disparity increased from 1984 to 1999 and then remained static. In December 1999, the New Zealand government's social welfare watchdog, the Ministry of Social Policy, warned that social chaos and economic stagnation will result if the gap between rich and poor continues to grow. As they stated in their Post Election Briefing Papers, 'The country's standard of living has continued to decline relative to other developed countries.'<sup>7</sup>

Associated with this problem of declining relative living standards is rising income inequality. In a report published in December 1999, *The Dominion* put it clearly: 'Since the mid-1980s, the highest income families have increased their share of incomes ... Economic growth has brought gains for the top 10% of households, with the next 20% just holding their own, while the bottom 70% are worse off than ten years ago.'<sup>8</sup>

### Economic Instability

In 1971, President Nixon delinked currencies from any tangible commodity when he took America off the gold standard.<sup>9</sup> Now that borders preventing the free flow of capital have come down, money sloshes around the globe. Only two decades ago, 20 per cent of the

international trade in currencies was speculative; this has now grown to 98 per cent. This market has high volumes and small margins; big money makes money from instability. With only 2 per cent of the currency trading now performed to facilitate trade in goods and services,<sup>10</sup> this makes for a very unstable system.

In his book *The Future of Money: Beyond Greed and Scarcity*, Bernard Lietaer says, 'Back in the prehistoric days of the 1970s, the typical daily volume of foreign exchange transactions, worldwide, fluctuated between \$10–\$20 billion. By 1983 that had risen to \$60 billion. By 1998, that daily volume had reached a staggering \$1.5 trillion.<sup>11</sup> The scale is so large that things can go wrong very rapidly. Even one man can tip the balance. Back in 1995, Singapore-based derivatives trader Nick Leeson quickly ran up US\$1.7 billion in unauthorised trades that caused the collapse of the long-established Barings Bank.

The world's economic system used to be focused on the production of goods and services. Now, it is ruled by moneymen. David Korten, author of *The Post-corporate World: Life After Capitalism*, calls these moneymen 'faceless bankers, powerful global institutions, fund managers, hedge fund speculators who operate with a herd mentality that sends exchange rates and stock prices into wild gyrations unrelated to any economic reality'.<sup>12</sup> They can bring down an economy the size of South Korea or Malaysia with a few e-blips on an electronic screen.

As a consequence, in the last 25 years 65 countries have experienced serious runs on their banking systems and many have seen collapses of their currencies.<sup>13</sup> For instance, during the second half of 1997 and early in 1998, a series of speculative attacks caused several Asian currencies – notably the Thai baht, the Malaysian ringgit, the Indonesian rupiah and the South Korean won – to depreciate sharply.

Just how big is US\$2 trillion a day in speculative currency trading? By 2001, the value of all the goods and services in the world was being traded 10–15 times a day on foreign exchange markets. Speculation in currencies is now 100 times larger than the



trading volume of all the world's stock markets put together. According to Bernard Lietaer, a former currency trader, the total volume of the world's central banking reserves are about US\$1.3 trillion, so the entire global money supply could blow out in less than a day's normal trading.<sup>14</sup>

If New Zealand were to suffer an attack on its currency as occurred in Argentina in 1991, it simply would not be able to withstand it.

### Growing Debt in New Zealand

New Zealand's economy is very tiny, representing only 0.2 per cent of the world's economy in size,<sup>15</sup> yet we have not escaped the problems associated with the world's unhealthy system of money creation.

Before our exports rose and New Zealand ran a surplus, there were years of poor current account deficits. For the year ended June 2000, the New Zealand current account deficit was NZ\$7.5 billion, which represented 7.2 per cent of GDP.<sup>16</sup> In the same year, the country's living standards were ranked 25th among the OECD nations, as compared to 4th in 1960.<sup>17</sup> And in 1999 the United Nations Report on Human Development in 174 countries found that we had slipped five places to 18th on its index in just one year.<sup>18</sup>

And as we shall see below, debt in almost every sector of New Zealand's economy has increased in recent years. First, I will look at the growth of housing loans, student loans, credit card loans and household non-housing loans. Then I will look at public debt and add up all the debts to reach a total debt figure. Note that most of the graphs indicate exponential growth, which as I explained in Chapter 1 is quite unsustainable.

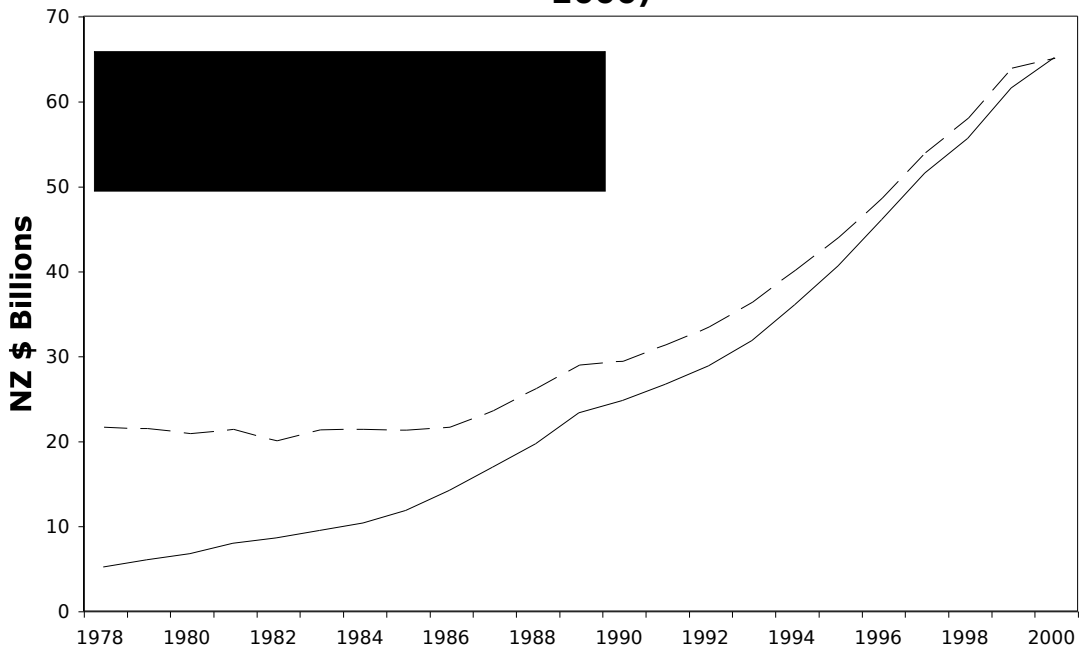
### Mortgages

The data on New Zealand mortgage debt comes from the Reserve Bank, and is shown on its own graph below.<sup>19</sup> Housing loans from large institutions such as banks and building societies rose rapidly from NZ\$3.7 billion in 1978 to NZ\$66 billion in 1999. That is a rise of nearly 1700 per cent in 21 years. (The Reserve Bank notes that data for housing lending cannot easily be separated from small business loans secured through residential mortgages as many business owners mortgage their houses to get a business loan. It also notes that before 1978 a substantial proportion of mortgage money came from solicitors.)

Even when corrected for inflation, the mortgage figure rises from NZ\$21 billion to NZ\$66 billion over those two decades. During the nine years from March 1991 to March 2000, mortgage debt rose by 73 per cent. Every time the banks issue a mortgage, up goes the debt. By August 2003, the total mortgage debt stood at NZ\$81.6 billion.

And not only did the mortgage money grow, but the percentage of the broader money supply created as mortgages also rose substantially during those decades. In 1986, mortgages comprised 37 per cent of the nation's money supply, but by March 2000 this had risen to over 62 per cent. This means that we are becoming more and more dependent on mortgages for our country's money supply. In addition, total housing values are dependent to a large extent on the loan money available. In 1979 this figure stood at NZ\$23 billion, but by 1999 it has risen to a staggering NZ\$181 billion.

### Total Household borrowing, mainly for Housing (1978-2000)



Source: Bun Ung, Reserve Bank of New Zealand, via email to the author 18 March 2002.

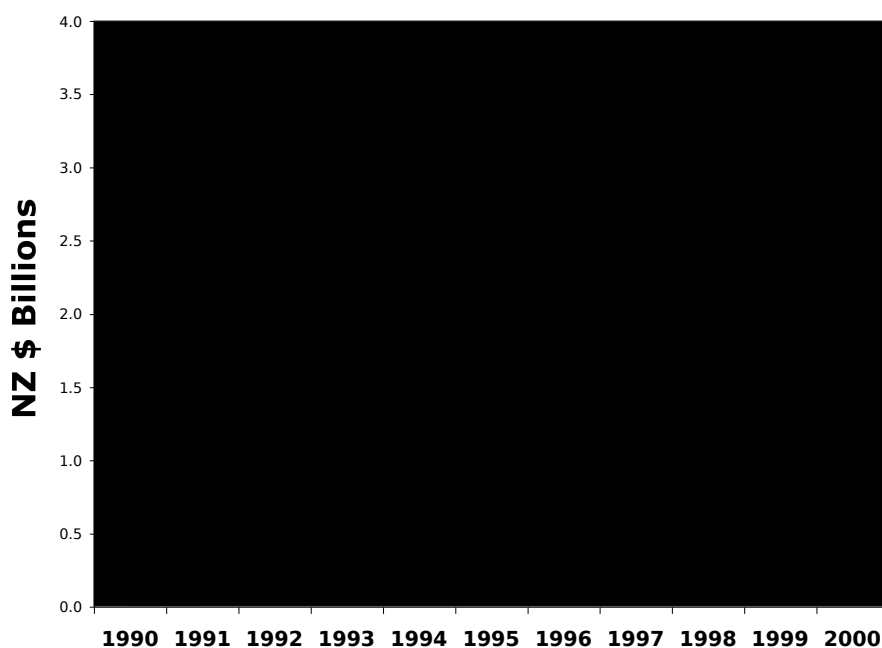
#### Student Debt

Student loans were introduced in New Zealand in 1991. A decade later, in April 2001, the total student debt had risen to more than NZ\$4 billion and by March 2003 had passed the NZ\$6 billion mark. The Ministry of Education reported in November 1999 that about 50 per cent of all students have a loan, and that the average student debt was NZ\$11,700 – almost double the 1994 figure. By June 2001 the biggest single loan was NZ\$167,000.<sup>20</sup>

In May 1999, the New Zealand University Students' Association issued a casebook report on its interviews with recent teacher and lawyer graduates. Comments from interviewees included that having a loan was 'a terrible worry', that 'it was like having a mortgage and no house to show for it' and 'if two educated people marry – with a combined debt of NZ\$40,000–80,000 – how can they afford to buy a house/car?'<sup>21</sup>

The scheme has had unintended socioeconomic effects in many areas, influencing choice of study, the ability to borrow, marriage, children, jobs, increases of professional fees to consumers, and property and labour markets.<sup>22</sup>

### Student Loans (1991-2000)



Source: Bun Ung, Reserve Bank of New Zealand, via email to the author 17 March 2002.

### Credit Card Debt

Credit card debt in New Zealand rose from zero in 1978 to NZ\$2.7 billion in 2000, and virtually tripled through the 1990s. In March 1991, outstanding credit card advances stood at NZ\$918 million and by August 2003 they had risen to NZ\$3.6 billion. According to banking lecturer David Tripe, about three-quarters of credit card debt is interest-bearing,<sup>23</sup> so only a quarter is paid during the interest-free month.

### Credit Card debt 1978-2000

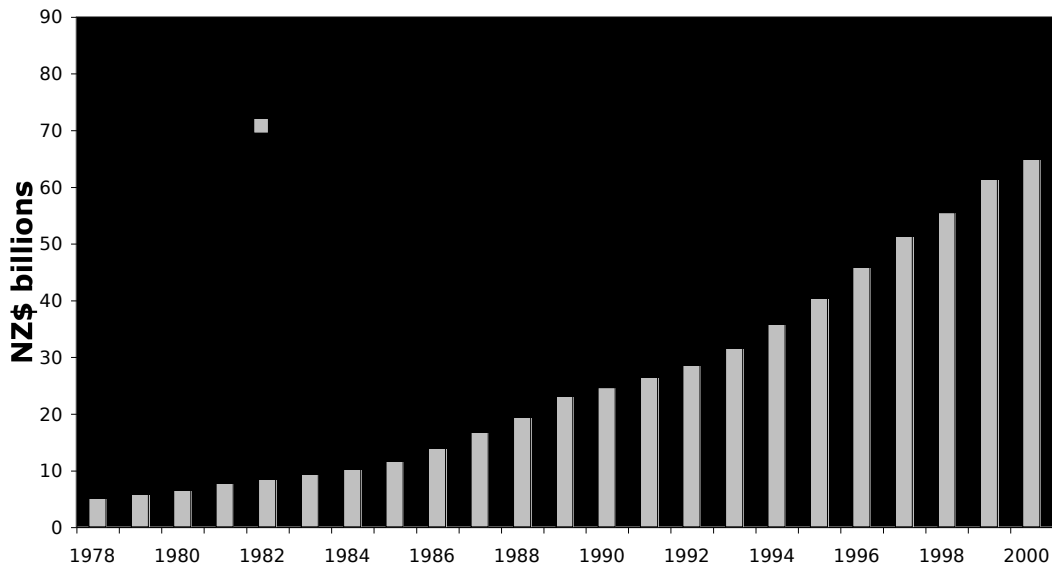


Source: Reserve Bank of New Zealand, [www.rbnz.govt.nz](http://www.rbnz.govt.nz).

### All Household Non-Housing Debt

When hire purchases, credit card debts, student loans and all other non-housing loans are aggregated, we get another story of escalating debt. This total debt aggregate in New Zealand has multiplied by a factor of over 20 in just two decades and the rise is accelerating. Below is a graph showing housing loans and non-housing household loans. The top part of each of the bars represents the non-housing debt, which is clearly dwarfed by the housing loans.

### Household loans (1978-2000)



Source: Bun Ung, Reserve Bank of New Zealand, via email to the author 18 March 2002.

### Government Debt

If personal debt is increasing, what is happening to the public debt? Government debt comes in two forms. First, there is the debt owed to New Zealanders (called NZ\$ government debt), which is the money our government borrows from our pension funds or from individuals. The other form of government debt is overseas debt. Since we have to pay the latter in US dollars, euros or Japanese yen, it uses up our precious foreign exchange reserves.

As discussed in Chapter 1, the main way government raises its money is from taxes. This money has been created and is circulating round the economy. But the second way it raises money is by borrowing it through the sale of government bonds. The government prints these bonds and sells them mainly to the banks, but it may also sell them to overseas buyers. As at June 2000, the total NZ\$ debt (mostly in the form of bonds)

was NZ\$28.3 billion. Of this, NZ\$11.9 billion was domestic debt held by New Zealanders, while the government overseas debt stood at NZ\$16.4 billion.<sup>24</sup>

Since the early 1990s, government overseas debt has apparently been reduced through the action of deliberate government policy. But because SOEs (state-owned enterprises) are now classified by Statistics New Zealand/Te Tari Tatau as corporations, many billions of dollars of public debt are hidden in the corporate debt figures. As the 'Government and Corporate Debt 1983–2000' graph on page 000 shows, if we include the overseas debt of SOEs in the public debt, government debt is actually rising and not falling at all. State-owned enterprises, including corporations like Meridian Energy and New Zealand Post, are part of the larger group called Crown entities, which includes district health boards, the Accident Compensation Commission and Housing New Zealand. In the years between 2000 and 2003, the total liabilities of Crown entities rose from NZ\$12.4 billion to NZ\$16.1 billion.<sup>25</sup>

Hospitals, for example, are in debt. During the nurses' threatened strike in January 2002, it was reported that the Canterbury District Health Board was NZ\$110 million in debt. As at December 2001, the total debt of district health boards was NZ\$1035 million and the average interest rate was 8 per cent. This means that the district health boards pay something like NZ\$80 million a year in interest to debt holders such as banks and overseas insurance companies.<sup>26</sup> Even a small body such as Wanganui District Health Board had a NZ\$40 million debt for 40,000 people in 2002. And schools and universities are also going into debt.

### Local Government Debt

The local government debt is officially included in the total government debt by Statistics New Zealand/Te Tari Tatau, but since they do not make the figures publicly available we have to work them out for ourselves. A survey by Malcolm Thomas of the Lower Hutt

City Council in mid-2000 reviewed the debts of 23 of the larger local authorities and found that they totalled NZ\$1.4 billion. Applying these results to the whole country on a population basis, Thomas suggested that the total debt for territorial authorities was approximately NZ\$1.8 billion at that time.<sup>27</sup>

As with the SOEs, all local authorities pay interest on their loans. While the governor of the Reserve Bank has the power to issue interest-free loans to local authorities, this never happens in reality and is unlikely to do so.<sup>28</sup>

### Corporate Debt

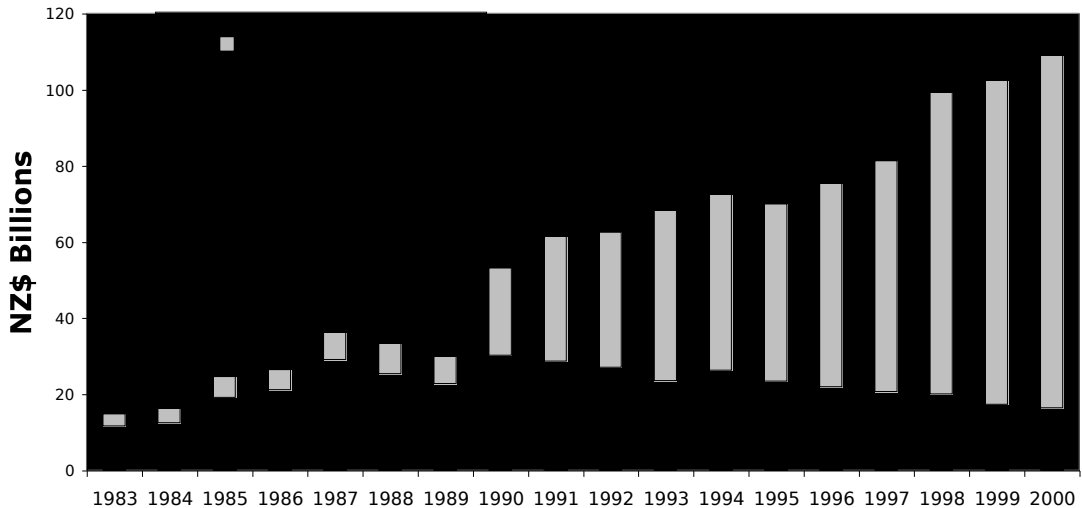
Since 1984, the corporate sector overseas debt has been rising, and in June 2001 it stood at NZ\$106 billion. A great deal of this debt is the banks' debt to their overseas parent banks. The graph below shows that corporate debt is about six times as big as government debt.

You might think it is a good idea for corporate debt to rise and government debt to fall. However, there are three reasons why this isn't so. First, we all pay interest on goods and services no matter who owes the debt. If a company such as Fisher & Paykel owes money, we help pay the interest when we buy a washing machine. Second, the figures are misleading because of the way SOEs have been reclassified by Statistics New Zealand/Te Tari Tatau – government owns SOEs but their debt is listed as corporate debt. Third, taxpayers don't get off scot-free when corporate debt burdens cause near collapse.

Governments often bail out corporations that are essential to the smooth running of the country. For example, even though Air New Zealand had been corporatised and privatised, the government still had to rescue it in 2001 to the tune of nearly NZ\$1 billion, because air transport is such a vital industry. Similarly, in the late 1980s when BNZ had doubtful loans, the government came up with two bail-out loans totalling over NZ\$1 billion.



## Government and Corporate Debt (1983↔2000)



### Total Debt

Before we work out New Zealand's total debt, I will talk about overseas debt. The country's total overseas debt (public and corporate) rose from NZ\$16 billion in 1984 to NZ\$123 billion in 2001, most of which was corporate (private sector) debt.<sup>29</sup> Any attempt to add up the total debt owed by New Zealanders has to avoid double counting. So corporate debt, for example, which is made up of the debt of New Zealand residents and the debt of overseas residents, has to be split into its constituent parts. Such overseas-owned corporations as Mobil, Shell, McDonald's and Toyota have considerable overseas debts, and while these should not be included in the total debt calculations, we as New Zealanders still pay interest on their debts because it is built into the cost of our petrol, fast foods and vehicles. Therefore, while the corporate debt of non-residents is not included in our calculations of total debt, it affects New Zealanders detrimentally.

Similarly, mortgages are classified as bank debt, which in turn is included in corporate debt, so they cannot be included without duplication.

So, instead of adding all the debt figures, which wouldn't give an accurate picture, we simply add the public and private debt of New Zealand residents – we add the private sector credit of New Zealand residents figures to the corporate debt of New Zealand residents figures.<sup>30</sup>

First, we take the total corporate (private sector) overseas debt (NZ\$106.1 billion in 2001) and subtract from it all the money owed by non-residents. This comprises the borrowing in overseas currencies by non-residents (NZ\$38.4 billion) and the NZ\$ borrowing of non-residents (NZ\$21.9 billion). Using the 2001 figures, this gives a total of NZ\$59.3 billion to subtract from that huge corporate debt figure, resulting in a sum of NZ\$46.8 billion owed by New Zealanders as corporate debt.<sup>31</sup>

Now we can work out our total debt, using the most recent figures available at August 2001:

Government overseas debt	NZ\$16.4 billion <sup>32</sup>
Total government NZ\$ debt	NZ\$28.3 billion <sup>33</sup>
Private sector debt of NZ residents	NZ\$127.1 billion <sup>34</sup>
Corporate overseas debt of NZ residents	NZ\$46.8 billion
<b>Total debt of NZ residents</b>	<b>NZ\$220.7 billion</b>

This shocking figure equates to NZ\$58,000 per capita, or more than twice our GDP. If an average of 7 per cent is paid on this debt, it would cost us each NZ\$78 a week to service it.

Since some can't pay, collectively we go further into debt to keep our money supply from shrinking. And remember that this debt will not go away – every child is born with it.

### Transfer of Money Overseas

As discussed in Chapter 1, another major consequence of creating money as interest-bearing debt is the movement of money overseas. Most banks in New Zealand are owned overseas, so the money that is loaned to New Zealanders has been created overseas.

In 2001, about 60 per cent of our corporate debt of NZ\$106 billion was denominated in US dollars, but this proportion used to be lower. The problem associated with this is that we New Zealanders have to pay more and more of our rising interest bill of about NZ\$5 billion a year in US dollars, which have to be bought with New Zealand dollars, thus further compounding our indebtedness.<sup>35</sup>

A country's balance of payments is defined as the difference between what is earned overseas from exports and what we pay for imports. New Zealand's balance of payments was worryingly high during the 1990s. But why was this so? We didn't have a trade imbalance, because our purchases matched our sales. In fact, it happened because money drained – and is still draining – out of our country in the form of interest, making us poorer. In 1990, household debt was about 47 per cent of disposable household income. Now it is more than 114 per cent.<sup>36</sup>

It is hopefully becoming clear now why allowing the creation of money as interest-bearing debt to dominate is such a destructive force. Not only are our debts increasing, but overseas banks virtually own our money supply. With bank-created credit, banks are acquiring an ever-increasing stake in our land, housing and other assets through the indebtedness of individuals, industry, agriculture, services and government. The overall assets of the registered banks in New Zealand rose from NZ\$103 billion in 1995 to NZ\$158 billion in 1999, some 87 per cent of which is owned by the five largest.<sup>37</sup>

And it is not just bank assets that increase, but also bank earnings. A survey by consultants KPMG (the third-largest international accounting firm) in May 2000 showed that banks in New Zealand earned a record NZ\$1.6 billion after tax in the 1999 financial year,<sup>38</sup> up from NZ\$1 billion in 1995. Almost all of this profit goes overseas.

With these generous profits at stake it is understandable that there has always been a bitter ongoing struggle between politicians and the private banks for the right to issue the country's money supply.

### Saving Solution?

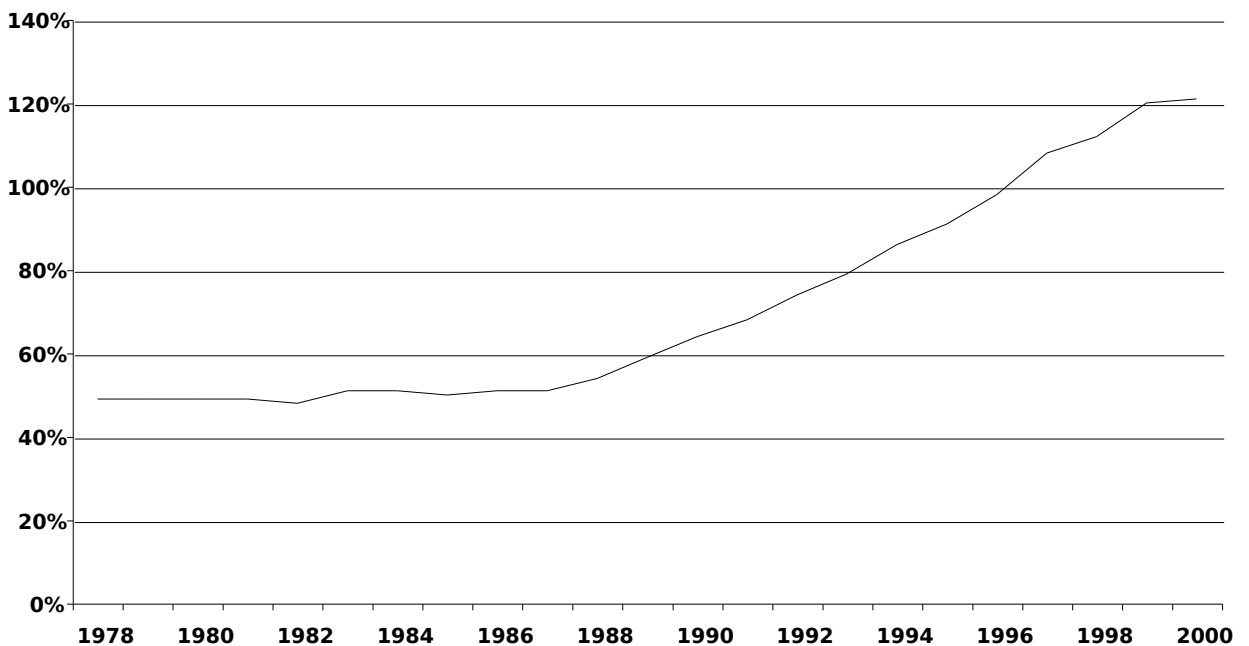
A lot of economists and those politicians who are advised by economists say we can change all this just by deciding individually to save more. In the 2001 Budget, the Treasurer, Michael Cullen, noted with concern the declining rate of savings. Despite the vast attention that is now being paid to the looming crisis posed by an ageing population that cannot be supported in retirement by government superannuation, combined with the advice to save, household saving rates have been falling in most of the world's rich countries. Why aren't people saving more for their future retirement? Why are they actually doing the opposite by saving less?<sup>39</sup> The trend appears to be not confined to New Zealand. According to a study by the Organisation for Economic Co-operation and Development (OECD), household saving rates declined between 1984 and 2001 in Australia, Austria, Belgium, Canada, Finland, Italy, Japan, Korea, New Zealand, Portugal, Spain, the United Kingdom and the United States.<sup>40</sup>

As the gap between rich and poor widens, it is important to remember that only the rich can save anyway. The poor don't save because they spend all their money. The rich put money into deposits in the bank and invest in managed funds, shares or property. But much of this invested money is borrowed money. So what does the word 'saving' mean any more if it is not saving 'excess' money?

In New Zealand, our pace of borrowing has been very fast since the 1980s. The graph below, taken from a 2000 report by Clive Thorp and Bun Ung, demonstrates the ratio of total household financial liabilities to personal disposable income over the past two decades. This ratio increased from less than 50 per cent in 1978 to around 110 per cent in 1998. What this means is that although our household assets rose in value during this period, our growing debt has actually caused the net financial assets of our households to decline since 1985.

<sup>41</sup> Thorp and Ung's report also showed that similar trends are apparent in the UK and Australia.

### Household liabilities as percentage of disposable



Source: Clive Thorp and Bun Ung, 'Trends in Household Assets and Liabilities Since 1978', *Reserve Bank of New Zealand Bulletin*, 63(2), 2000, p21.

## Keeping the Secret

But surely if things are as bad as I say someone would have told us? Why have experts at the Reserve Bank, economists and politicians not warned us of these problems?

Even though the New Zealand government technically owns the Reserve Bank, and has done so since 1935, the truth about money creation has to be extracted from them using considerable persistence. During 2000, after reading widely on money creation, I had a six-month correspondence with the Reserve Bank to find out how money is created in the country. Since the replies were either hard to understand or contrary to what I had just read, 16 letters were exchanged in all. Several times I almost gave up in despair. It was easy to become confused and I began to feel that the bank was either protecting its craft or trying to keep a blanket of ignorance over the creation of money. For instance, it insisted many times that banks only lend out their deposits, when what it really meant is that they ‘create and lend’. Before Murray Sherwin, the deputy governor of the Reserve Bank, finally acknowledged that the banks in the country as a whole had been responsible for doubling the money supply in a decade, he wrote: ‘The key point for you to keep in mind is that banks and other financial institutions have no magical capacity to “create” money and wealth at their own behest. When a bank lends you money, it is lending the money of its depositors.’<sup>42</sup>

Some other central bankers have not been quite so reticent. In 1939, for example, Graham Towers, governor of the Bank of Canada, testified before the Commons Banking and Finance Committee: ‘The banks, of course, do not lend out their depositors’ funds. Each and every time a bank makes a loan, new bank credit is created. Brand new money.’<sup>43</sup>

And Lord Josiah Stamp, president of the Bank of England in 1920, was more blunt still: ‘The modern banking system manufactures money out of nothing. The process is

perhaps the most astounding piece of sleight of hand that has ever been invented.

Banking was conceived in iniquity and born in sin. Bankers own the earth; take it always from them, but leave them with the power to create credit, and with the stroke of a pen they will create enough money to buy it back again ... If you want to be slaves of the bankers, and pay the costs of your own slavery, then let the banks create money.<sup>44</sup>

Even in New Zealand we have had official confirmation that banks create our money. The Royal Commission on Banking and Credit, chaired by Justice Tindall in 1956, reported that banks create credit but that it is a normal function of a bank to do so, as banks are banks of issue as well as banks of deposit.<sup>45</sup> More recently, after a great deal of preliminary discussion with New Zealand Banking Reform (a pressure group that existed for two years around 2000 to help reveal how money is created), Michael Reddell, chief manager of the Financial Markets Department, Reserve Bank of New Zealand, confirmed that, 'More than 98% of the M3 measure of the New Zealand money supply has been created by registered banks.'<sup>46</sup>

What about economists, couldn't they have told us the truth of the matter? Well, so pervasive is the university teaching about the role of interest, and so unquestioned is the right of banks to create the bulk of the money supply at interest, that it is rare to find an economist who is willing to entertain the possibility that the textbooks may need rewriting. And when banks sponsor university departments, how can they claim to be truly independent? Essentially, university economics courses subscribe to the orthodoxy. When asked how New Zealand's total debt has increased beyond the country's GDP with no sign of a reduction, economists will often respond by saying that New Zealanders are living beyond their means.

Between 2000 and 2002, in my role as a member of New Zealand Banking Reform, I had discussions with many economists. One of the few whose insights were helpful in this search for meaning was John Lepper, economic advisor to the Rt. Hon. Jim Anderton,

Deputy Prime Minister. I asked him why he supported the current system of money creation; he said it was because ‘it works’. It works because people trust bank cheques. He then agreed that the system widens the gap between rich and poor. When I asked him why bankers and economists continue to tell the public that banks are lending out their deposits when they are really creating the money, he said:

*I don't know quite ... Well, I suppose I do. Well, they want to get their money back, so one of the moral arguments they use is that if we lend you money then you have got to pay it back. It is our money. (When in fact it is not. It is actually the public's money because the public is allowing them to do this debt creation.) And in order to get their deposits back the banks have to claim an ownership on those deposits. Otherwise they will never be repaid. And the debt-based system does require repayment otherwise it falls over.<sup>47</sup>*

So I asked Mr Lepper why the Reserve Bank was so terribly reluctant to volunteer the real truth. He said that it was because they want to pretend that they are actually controlling monetary policy, when really they were simply following what the banks do – being led by the nose. ‘I just don't think they control the monetary system. And if they want to deny that they have to deny that banks create money out of nothing. That's the reason,’ he said.

It is rare to find an economist who acknowledges that at heart there is a structural defect in the financial system, which is leading to escalating debt, a widening gap between rich and poor, and a growth imperative that endangers the survival of the planet.

And what about the politicians, surely they would have told us? Well, politicians are not in a position to tell us if they don't know, and only a few do.

At a 1993 election meeting in Christchurch, Ruth Richardson, Minister of Finance in the 1990 National government, denied that banks create money. She said, ‘The money



supply is under the control of the Reserve Bank ... Banks do not create money.<sup>48</sup>

Richardson was later appointed a director of the Reserve Bank of New Zealand.

Long-time battler Christchurch Democrat Stan Fitchett has letters in his possession from two former ministers of finance – Ruth Richardson and Bill Birch – saying that if the government created the money supply there would be inflation.<sup>49</sup> The Hon. Dr Michael Cullen emailed a member of the New Zealand Democrats in May 2003, in which he stated: ‘In particular banks do not create credit like a Central Bank. When banks make loans they are lending the money creditors have deposited with them.’<sup>50</sup>

Politicians can’t be much help to us if they are ignorant of the facts, nor if they automatically repeat the arguments taught to them. But it wasn’t always that way. Money creation has featured regularly in New Zealand politics since 1840; three times in our history our government has created its own money. In the 1935 election, money creation was a major election issue. Nationalisation of the Reserve Bank was the first action of the first Labour government. Low-interest loans were issued from 1936 onwards to the Dairy Board and to Fletchers for building state houses for the State Advances Corporation. The Social Credit Political League gained 12 per cent of the vote in 1954 and 21 per cent in 1981. But for a decade, under the name of the Democrats, these politicians were part of the Alliance, and struggled in vain to place the issue of money creation on the political agenda.

In this chapter I have looked at the financial symptoms of our diseased system of money creation: spiralling debt; the widening gap between rich and poor, both individually and as whole countries; and increased instability. But this is by no means the end of the story. The creation of money as interest-bearing debt by private banks sets in place a most extraordinarily destructive chain of events, described fully in Michael Rowbotham’s *The Grip of Death*.<sup>51</sup>

Individuals have to compete with each other in order to get enough money to service their loans and pay off their ever-increasing debts. Where once banks used to lend 80 per cent of the value of a house, some now offer virtually 100 per cent mortgages and push second credit cards. Because of the lack of purchasing power and heavy debt, young couples must both work in order to pay their mortgages, a situation made worse when there are also student loans to pay off.

The intense competition between industries to get money to service their debts leads to mergers and acquisitions. It makes it difficult for small firms and ethical companies to keep trading. Those who don't cut corners are either forced out of business or become the subject of takeovers. Only the fastest-growing businesses survive in this cutthroat economic environment. Mergers result in the further concentration of power among a smaller and smaller number of large corporations. Footloose corporations with no allegiance to any place prowl the globe in search of cheap labour and weak environmental laws.

When money is issued as interest-bearing debt, the interest payable becomes the fuel driving the engine of continuing economic growth. Banks must make new loans faster than they retire old loans, so there must be a continual expansion of bank credit money. Such forced economic growth leads to the 'cannibalising' of the non-money economy by the formal economy – the substitution of home meals with fast foods, of family recreation with paid entertainment, of parent care with nanny care, and of home care for the elderly with institutional care.

Economic growth can also occur in areas that are essentially defensive, areas where there is no actual improvement in the quality of life. These new industries only just prevent our situation from deteriorating completely – bottled water, security services, insurance against job loss and prison services are just a few examples of these new growth areas. But any type of economic growth is usually pleasing to politicians even if it is in

non-productive areas such as financial speculation and gambling. And, disastrously, it leads to the drawing down of natural capital, as 'non-productive' resources such as native forests are felled and exploited for money, or conservation areas are exploited for gold.

The phenomenon of interest also results in an uneconomic escalation of trade. Governments have to struggle to pay off the debt incurred when they borrow money from pension funds (by selling government bonds) or from banks. The growing total overseas debt in every country – owed largely to the commercial banks of the world and the international banking agencies – means they must struggle to export more than they import.

The Bretton Woods Conference of 1944, which was dominated by US interests, allowed nations to seek an imbalance of trade rather than a trade balance, as UK economist John Maynard Keynes had proposed. As he states in his book *Grip of Death*, Michael Rowbotham believes that overseas trade is now reduced to a competition between countries as they try to relieve their indebtedness. Instead of trade being for mutual benefit, it becomes 'export warfare'.<sup>52</sup>

As a consequence of this competition, large corporations transport ever-cheaper goods around the world, leading to the lowering of commodity prices. The push for exports means a wasteful and accelerating growth of trade, with identical goods criss-crossing the globe, adding to global warming, damaging the lifestyle and cultural integrity of indigenous people, and reducing the self-reliance of local communities. Democracy is continuously eroded as centrally planned corporations colonise the world, usurping the power of democratically elected governments. This loss of democracy is further exacerbated as central banks come increasingly under the influence of the money markets.

The deregulation resulting from the growing power of multinational corporations and billionaire currency speculators has led to a free flow of capital, bringing economic

instability. This speculation is so great that it can lead to the collapse of entire economies – as has happened in Mexico, Thailand, Indonesia and Russia. The deflation that follows such collapse further impoverishes debt-ridden nations. Bernard Lietaer, a former currency trader and central banker, devoted considerable attention to monetary instability in his book *The Future of Money*:

*It does not require a rocket scientist to understand why the volatility increases with the speculative volume of the trades ... Let us assume that your currency is under pressure, and that a modest 5% of the major currency traders 'take a negative view of that currency'. This means in practice that those who own your currency will sell it, and those who don't own it sell short. In 1986, when total daily volume was around 60 billion dollars, such a move by 5% of the market volume would have represented a \$3 billion move against the currency in question, certainly a challenge to a central bank, but a manageable one. Today, with volumes of \$2 trillion per day, the same proportional move would generate an overwhelming \$100 billion transfer against your currency, which no central bank would be able to withstand.<sup>53</sup>*

The growing debt of poorer nations unable to service their burdensome debts has become the tragedy of our age. Report after report from international agencies has emphasised that debt servicing often takes priority over clean water and essential drugs. For example, in 1995 in Brazil, 34.5 per cent of government expenditure was on social services, while 75.6 per cent was spent on debt interest payments.<sup>54</sup> Surely this is a world gone mad?

### 3 The Environmental and Social Symptoms

*The scale and urgency of the challenges facing us in this century are unprecedented. We cannot overestimate the urgency of stabilising the relationship between ourselves, now six billion in number, and the natural systems on which we depend. If we continue the irreversible destruction of these systems, our grandchildren will never forgive us. Nature has no reset button.*

– Lester Brown, Worldwatch Institute<sup>1</sup>

This chapter will deal mainly with the environmental and social problems caused by our money system, and shows how all three are interconnected. In it I take a brief look at the global environmental crises we face and the social impact of globalisation, and then focus more specifically on social issues within New Zealand. This section is not intended to overwhelm the reader, and so should be read in conjunction with the chapters in Part 2 of the book that outline innovative solutions to complement the current positive-interest money system with interest-free or negative-interest currencies.

Our unhealthy global economy is rather like a cancer-riddled body. The fast-growing cancer cells overwhelm the healthy ones and use up valuable nutrients. Many thousands of cells have died, while the remainder need to be treated, nurtured and

cared for. The cancerous parts of the body must be cut out and removed if the whole is to survive.

It's as if, while we were sleeping, someone came in and contracted out the creation of our money supply and the design of our currency. Someone invented a way of measuring our progress based on the values of war and exploitation. Someone decided that a top-down model of governance would be the best model. And now corporations have grown like cancers. Many of them are bigger than national economies, and they leave no nutrients for the healthy young businesses struggling in their ever-expanding shadow. There is death all around.

Lester Brown, founder of the Worldwatch Institute, announced in May 2001: 'We are losing the war to save the planet. Somehow we have to turn the tide ... We need a vision of what an environmentally sustainable economy – an eco-economy – would look like, a roadmap of how to get from here to there, and a continual assessment of progress in this effort.'<sup>2</sup>

The Club of Rome's two earlier reports in 1973 and 1993 assumed that the money system was neutral in its effect and so did not allow for this variable when outlining various scenarios for the planet's inhabitants. However, we may see a different report when it reports in 2004. For without a healthy money system we cannot establish an eco-economy.

### One Crisis or Many Crises?

In the world today there are countless interwoven problems, but I believe they may all stem from the one cause. Economist Hazel Henderson contends that all the major problems of our time – whether energy crises, environmental crises, urban crises or

population crises – are different facets of one crisis.<sup>3</sup> This makes it effectively almost impossible to deal with one factor at a time; efforts to separate the results of our human activity into component parts are only valuable if they are consciously dealt with as part of a unified approach.

For an example of this, look at the way economic, social and environmental issues are split in your nearest district council. Environmental departments warn the public of undesirable environmental trends, but they aren't encouraged to communicate with financial planning departments, which praise ongoing economic growth and development. The social services sections, meanwhile, may be completely isolated from the other two. As a result of this separation, city councillors receive three disconnected reports. The same is true at the national level. Most MPs leave economics to those who are interested in the subject, and instead agonise over one particular section, such as the police or agriculture. And each ministry has to make economic assumptions. New Zealand's Ministry for the Environment, for instance, has to operate under the given that economic growth must be fostered.

So why do we fail to see what we are doing when we separate interconnected disciplines in this way? Roy Madron and John Jopling suggest that it 'must surely be because we have a system of ordering our affairs that not only perpetuates and aggravates these catastrophic trends, but that also conceals, distorts and misrepresents what is going on'.<sup>4</sup> Perhaps it is time to find out what is going on and to reconfigure the system?

Many of the world's problems would be described by systems theorists as 'wicked' rather than 'tame'. A 'wicked' problem is complex: a wide variety of people care about it, and it is embedded in an evolving set of interlocking issues and

constraints. What we need are solutions that give maximum leverage and can also solve the most difficult problems. If our recent extremes of weather and our worsening social indicators are, fundamentally, the result of the same phenomenon, we at least have some hope that we can find a relatively easy solution.

Five critical crises are occurring simultaneously: climate change and environmental stress; an ongoing dramatic rise in population growth; a social crisis of burgeoning prison populations, high divorce and suicide rates, drug abuse and unemployment; a growing gap between rich and poor; and a growing instability in the world's economic system. The latter two crises were dealt with in depth in Chapter 2. In this chapter I will look at environmental problems, population growth and the social effects of globalisation on a worldwide scale, and then home in on the social crisis that we face in New Zealand today.

## The State of the World

### Climate Change

According to BBC World, the 1990s was a catastrophic decade, bringing three times as many natural disasters as previous decades. Even allowing for inflation, these disasters cost nine times as much as those that occurred in previous decades.<sup>5</sup>

1998 broke the global temperature record by almost half a degree Fahrenheit, which in climate terms is a huge leap. The previous hottest years, the last two of which were 1995 and 1997, broke the record by small fractions of a degree. In August 2003 Britain had its first recording reading of 100 degrees Fahrenheit.



In 1998, for example, 1998 gave us Hurricane Mitch hit Central America and we also suffered raging forest fires, torrential rains and mudslides, floods and droughts. The following year was no better, with severe flooding in Venezuela and savage storms in France that left 2 million homes without power. Another measure of nature's increased violence is that four times as many people now die each year in natural disasters as in all war and civil disturbances combined.<sup>6</sup> Some 85 per cent of all insurance payments worldwide now compensate for natural disasters.<sup>7</sup>

A combination of climate change and deforestation is blamed for these problems. Environmentalist Donella Meadows said in 1999 that the most striking evidence is coming from nature itself. People may be in denial, but 'plants and critters are noticing changes and trying to respond'.<sup>8</sup>

Global warming is caused by the greenhouse effect, which is a direct consequence of the increased burning of fossil fuels – mostly by industry – and further exacerbated by deforestation. As the planet warms up, so weather systems change and climatic disasters and extremes occur on a more regular basis.

Those who doubt global warming are having a harder and harder time summoning contrary evidence, as glaciers melt and the Antarctic ice shelves fracture. In 1998 the global temperature record was broken by almost half a degree Fahrenheit, which in climate terms is a huge leap. And in August 2003, Britain had its first temperature reading in excess of 100°F (37.7°C). According to the Worldwatch Institute in its January 2000 report, rising temperatures are melting glaciers from the Peruvian Andes to the Swiss Alps.<sup>9</sup>

The United Nations Environmental Agency has declared that it is now too late to halt global warming and that time is fast running out to prevent other environmental catastrophes. Klaus Toepfer, head of the UN environmental programme, warns that emissions of the greenhouse gases, which cause global warming, have quadrupled since the 1950s, and that the rate at which humans are destroying the environment is

accelerating. Eighty per cent of the world's original forest cover has been cleared, and logging and mining projects threaten 39 per cent of the remainder.<sup>10</sup>

Despite all the rhetoric, little progress is being made towards containing global warming. Kiribati, the first island to see the sun this millennium, is said to have only 30 or 40 years left before it disappears beneath the sea.

### Environmental Stress

Our ever-increasing economic growth is putting the environment under greater levels of stress, to the extent that it is now approaching breaking point. As far back as 1984, a UN World Commission on Environment and Development travelled the world for three years listening and learning. Their report, *Our Common Future*, said that economic activity had grown fifty fold in the past century, and that 80 per cent of this growth had taken place since 1950. They reminded us that ecology and economy are becoming interwoven, thereby accelerating interdependence among nations. They also noted that in 1987 the world manufactured seven times more goods than in 1950, and said:

*When the century began, neither human numbers nor technology had the power radically to alter planetary systems. Now we have the power but major unintended changes are occurring in atmosphere, soils, waters, plants and animals, and in the relationships among all of these ... Into every year we now squeeze the decades of industrial growth that formed the pre-war*

*European economy ... We borrow environmental capital from future generations with no intention or prospects of repaying it.*<sup>11</sup>

It took from the dawn of human history until 1900 for the global economy to grow to US\$60 billion. Now, it grows by this much every two years. Unchecked, today's US\$40 trillion economy may be five times as large only one generation or so hence.

The Worldwatch Institute reported that during the same period that economic activity had increased six fold up to 1995, 'From 1950 to 1997, the use of lumber tripled, that of paper increased sixfold, the fish catch increased nearly fivefold, grain consumption nearly tripled, fossil fuel burning nearly quadrupled, and air and water pollutants multiplied several fold.' The institute also said that as a result of these growing demands on a finite ecosystem, 'forests are shrinking, water tables are falling, soils are eroding, wetlands are disappearing, fisheries are collapsing, rangelands are deteriorating, rivers are running dry, temperatures are rising, coral reefs are dying, and plant and animal species are disappearing'.<sup>12</sup>

Dr Colin Campbell, a veteran of 40 years of oil exploration and a world-renowned oil expert, presented a warning to a House of Commons All-Party Committee in the UK on 7 July 1999 on oil reserves. In his speech, he said that more than 70 per cent of the present global supplies of oil were discovered prior to 1973, and that we now find only one barrel for every four we consume. He maintained that the production of the more easily extracted oil will decline from about 2005 and that production from less accessible sources will start to decline around 2009.<sup>13</sup>

Mathis Wackernagel and William Rees, two researchers at the University of British Columbia, have calculated our 'ecological footprint' – the amount of land needed to produce our resources and absorb our wastes. They say our footprint is now 20 per cent greater than the productive land base of the planet. The only reason we can get away with such a huge impact is that there are still stocks of forest, fish, soils and

waters to draw down. They also showed that the situation is not balanced – the ecological footprint of the average American is 13 times that of the average Indian, and the 4 million babies born in the US this year will have twice the earthly impact of the 26 million babies born in India.<sup>14</sup>

Not only is environmental stress evidenced in the form of depletion of natural resources, but also in the pollution of our air, waters and land. Industrial waste, the burning of fossil fuels and the application of chemical pesticides, herbicides and fertilisers all pollute. Falling sperm counts<sup>15</sup> and tainted breast milk<sup>16</sup> are just two warning indicators that the food we eat, the water we drink and the air we breathe are becoming increasingly toxic.<sup>17</sup>

In November 1992, the Union of Concerned Scientists published the ‘World Scientists’ Warning to Humanity’, which included the following:

*Our massive tampering with the world’s interdependent web of life – coupled with the environmental damage inflicted by deforestation, species loss and climate change – could trigger widespread adverse effects, including unpredictable collapses of critical biological systems whose interactions and dynamics we only imperfectly understand ... A great change in our stewardship of the earth and the life on it is required, if vast human misery is to be avoided and our global home on this planet is not to be irretrievably mutilated.*<sup>18</sup>

*The Case Against the Global Economy, and For a Return Toward the Local*, edited by Jerry Mander and Edward Goldsmith, spells out how badly we had fouled our nest by 1998. It includes the following disturbing findings:

- Global carbon dioxide emissions are increasing at nearly 4 per cent per annum.

- Six million hectares of land are abandoned every year, degraded by desertification, salination and soil erosion.
- Fifty-five per cent of tropical forests have been destroyed and wilderness areas are shrinking.
- At least 5000 species disappear each year – about 10,000 times the pre-human extinction rate.
- One-fifth of the world's population breathes air more poisonous than the World Health Organisation's standards recommend. An entire generation of Mexico's children may be mentally stunted by lead poisoning.<sup>19</sup>

### Population Growth

And, of course, not only is our exponential economic growth causing environmental stress, but so is our exponential population growth. In the last 100 years the world's population increased from 1.6 billion to 6 billion. It hit 3 billion in 1960 and has doubled again in the blink of a planetary eye. By 2025, two-thirds of our inhabitants will be urban-dwellers, leading to more traffic and pollution, and to more crime and violence.<sup>20</sup> The Worldwatch Institute has said that we should aim to have a global population of no more than 7 billion.<sup>21</sup>

Not only are there many more of us, but we now use greater and greater quantities of energy and material in manufacturing computers, cars, drugs and artificial chemicals. We cover the globe with our lights, buildings, farms, roads, planes, ships and dumps. Even in New Zealand, the amount of solid waste in landfills increased by 30 per cent between 1992 and 1995.<sup>22</sup> In 2001, *Environment* magazine said, 'The generation of solid waste is a serious problem worldwide, particularly among industrialized nations where the amount of solid waste generated continues to increase in both absolute and per capita terms.'<sup>23</sup>

As far back as 1987, a UN World Commission on Environment and Development had travelled the world for three years listening and learning. Their report, *Our Common Future*, said that economic activity had grown fifty fold in the past century, and 80% of this was since 1950. They reminded us that ecology and economy were becoming interwoven, accelerating interdependence among nations. They noted that by 1987 the world manufactured seven times more goods than in 1950 and said:

‘When the century began, neither human numbers nor technology had the power radically to alter planetary systems. Now we have the power but major unintended changes are occurring in atmosphere, soils, waters, plants and animals, and in the relationships among all of these...Into every year we now squeeze the decades of industrial growth that formed the pre-war European economy... ‘We borrow environmental capital from future generations with no intention or prospects of repaying it.’

It took all of human history to grow the size of the global economy to \$60 billion by 1900. Today the world economy grows by this much every two years. Unchecked, today’s \$40 trillion economy may be five times as large only one generation or so hence.

### The Scourge of Unemployment

The ascendancy of global corporations has had significant consequences on societies across the world. Whole industries have been wiped out in every region, the results of

which have been mass unemployment, underemployment, precarious employment and exclusion.

Jeremy Rifkin, an expert in work issues, estimates that 800 million people worldwide are unemployed or underemployed as technology replaces human work in agriculture, manufacturing and services.<sup>24</sup>

Viviane Forrester, meanwhile, describes the shame of human wastage, the discarded millions of unemployed or underemployed:

*So many stifled, crushed, cornered, beaten and falling-apart lives, merely tangential to a shrinking society. A kind of increasingly opaque pane of glass stands between these dispossessed people and their contemporaries. Since they are less and less seen by others, since it is hoped that they will be even further obliterated, erased and blotted out from society, they are said to be excluded from it. On the contrary they are screwed into it, incarcerated and included in it to the marrow. They are absorbed and eaten up by it, relegated forever, deported where they stand, repudiated where they stand, banished, subdued, fallen and so cumbersome, such a nuisance! ... Is it not the way one would construct a society of slaves upon whom only slavery can confer status?*<sup>25</sup>

Population

## The State of New Zealand

Since 1984 New Zealand has followed the path of deregulation and privatisation. Our tiny economy was opened up to the global marketplace, resulting in the devastation of large areas of the productive economy, and subsequently increasing levels of unemployment and social disintegration.

This New Zealand experiment, as Jane Kelsey, Brian Easton, Tim Hazeldine and Bruce Jesson have all documented,<sup>26</sup> imposed a transformation on New Zealanders against their will by governments that concealed their intentions. They conclude the country is worse off in many respects than it was in 1984. The Labour government in power at the time of writing has done its best to reverse as much as it dare, but major changes have been limited.

## Unemployment and Increased Wealth Disparity

In 1975 there were 2894 unemployment beneficiaries; by 1997 the figure had risen to 140,628.<sup>27</sup> Employment and unemployment indicators have improved only slightly since then.

As wealth disparity increased, New Zealanders became conscious of a pressing need for action over social issues. In 1998, the Anglican Church organised a 'hikoi of hope', when thousands marched through Wellington to raise awareness about growing levels of poverty and former Governor General Sir Paul Reeves shouted 'Enough is enough!' outside Parliament. Case studies of poverty were presented to MPs, and the



social services councils of the churches published a series of papers refuting the myths about poverty.

### Benefit Dependency

In 2002, an average of 5.2 per cent of the labour force was unemployed and actively seeking work. The unemployment rate has steadily declined since 1998, although in 2002 it still remained higher than it was in 1986.<sup>28</sup>

### Maori

The government's *Progress Towards Closing the Social and Economic Gaps Between Maori and Non-Maori* report from Te Puni Kokiri in 2000 demonstrated that Maori continue to experience poorer health status, lower income levels, higher unemployment and higher rates of prosecution and conviction. In addition, they attain fewer educational qualifications and have lower rates of home-ownership than non-Maori.<sup>29</sup>

Maori make up about 13 per cent of New Zealand's inhabitants. They have the lowest education achievement levels, the poorest health, the worst housing conditions and the highest unemployment rates, and they make up nearly half the prison population. Economist Brian Easton, when interpreting Te Puni Kokiri's report, stated that the Maori poverty rate is over 50 per cent more than that of non-Maori.<sup>30</sup>

### Children and Youths in Crisis

At the end of the 1990s, 25,000 families, or 5 per cent of the total number of all New Zealand families, were in a cycle of entrenched disadvantage.<sup>31</sup> Between 1986 and 1999, the proportion of children aged under 18 with a parent on benefit rose from 13 per cent to 26 per cent, while the average income of young people aged 15–24 dropped by 45 per cent.<sup>32</sup> The New Zealand youth suicide rate in 1990 was among the highest in the OECD.<sup>33</sup>

## Health and Disability

Like other industrialised nations, New Zealand is not winning the battle to keep the population healthy at a low cost to the nation. According to the Director-General of Health in his 2002 *Annual Report on the State of Public Health*, 20 per cent of government expenditure in 2002/2003 was on health, compared with 13 per cent in 1989, despite a rise in private spending. Diseases like diabetes and asthma are increasing in incidence and prevalence, and obesity has risen 50 per cent between 1989 and 1997. Type 2 diabetes is now being found in children and adolescents. The number of people treated in hospitals has been increasing steadily at about 4–5 per cent per year, and the rate of increase exceeds the rate of increase expected through population growth and the ageing of the population alone.<sup>34</sup>

Nor are we doing particularly well in terms of mental health. In the year 2000, there were 54,000 patient-year equivalents on new-generation antidepressants such as Prozac.<sup>35</sup>

## An Ageing Society

While the world's population is growing as a whole, within many developed countries growth rates are now approaching zero. This is good news on the global scale in the long run, but in the short term on a national scale it means that these populations will age and there will be fewer and fewer people working to support them. The situation is further compounded by longer life expectancies – in New Zealand, the numbers of people aged over 85 are projected to increase six fold during the next 50 years. Almost 12 per cent of the population currently receives New Zealand Superannuation. This figure is steadily increasing, so that the affordability and sustainability of the scheme continue to be the subject of political controversy.<sup>36</sup>

It is also more expensive to fund the medical bills of an ageing population. As there is a rise of disability with age, our health system and welfare system will become more vulnerable.

### Urbanisation

Eighty-four per cent of our population lives in centres with populations exceeding 1000 people. Almost a third lives in Auckland, a city growing at the rate of a new Dunedin every five years. As a result, Auckland faces major infrastructural problems. Growth has caused traffic congestion, higher levels of crime, and problems with water and sewage systems. In 1997, the power supply to the central business district was cut off when four cables failed.

### Children and Youth in crisis

25,000 families or 5% of all families were in a cycle of entrenched disadvantage.<sup>i</sup>

Between 1986 and 1996 the proportion of children under 18 with a parent on benefit went from 13% to 27% and the average income of young people (15-24) dropped by 45%.

The New Zealand youth suicide rate in 1990 was among the highest in the OECD.<sup>ii</sup>

### Benefit Dependency

Low skilled jobs have largely disappeared from the economy, and many unemployed and sick have become long-term beneficiaries. Between 1978 and 1999, the proportion of national income required to fund income support for people of working age doubled.

### Crime

As the pressures on society increase, so rates of crime go up. Between 1970 and 1999 there were 250 child deaths from parental assault in New Zealand.<sup>37</sup>

By 1995, the offence rate stood at 141 per 1000 people, more than seven times the rate of 1950.<sup>38</sup> The country's prison population of nearly 6000 is expected to increase by a further 19 per cent by 2010.<sup>39</sup>

Criminal victimisation survey data shows that around 1 in 12 of New Zealanders was a victim of violent offending in 1995.<sup>40</sup>

### Some Good News

Despite all the doom and gloom, the news isn't all bad. According to a United Nations report on human development in 174 countries, New Zealand is in the top bracket in terms of both life expectancy and adult literacy.<sup>41</sup>

With regards communications, 93 per cent of New Zealanders had phones according to the 2001 Census,<sup>42</sup> and more than a million New Zealanders were using the Internet as of January 2000, making us sixth overall in Internet use in the world.<sup>43</sup>

In 2003 *The Social Report*, a publication from the Ministry of Social Development, various indicators of wellbeing were mapped to compare 1996 with 2002. Of the indicators they chose, they found that only voter turnout, obesity and income inequality appeared to have worsened, while road casualties, educational attainment and unemployment figures had improved. Most statistics had not altered significantly, and the authors said: 'New Zealanders are living longer healthier lives. They are generally better educated, safer and earn more now than in 1996.'<sup>44</sup>

### Millennium Summary

As the millennium turned, the London-based New Economics Foundation gave both the bad news and the good news on the state of the world:

#### **At the end of the old millennium**

- One in three of the world's workforce was unemployed.
- 1.3 billion people in the world were surviving on less than US\$1 a day.
- £350 billion was spent globally on advertising.
- Over three-quarters of the world's species were in decline or under threat.
- Atmospheric carbon dioxide levels were at a 160,000-year high.
- 14 million Britons were living below the poverty line.

#### **At the start of the new millennium**

- 5 million workers were supported by fair trade in cocoa, coffee and other goods.
- £2.5 billion of stock market funds were invested ethically.
- One in three UK consumers was guided by values, not price.
- The value of the organic food market – put at £270 million – was set to double by 2001.
- Businesses promoting workers' participation outperformed the market average.

- One in two people in Ireland belonged to a credit union.<sup>45</sup>

It may seem as though our sick body is falling apart at the seams. What proportion of this mess is to be laid at the feet of the money system and what proportion to the human tendencies exacerbated by the money system – or even to other factors – is not important. What is important is that we take note of the symptoms of the disease and treat the root cause before it is too late.







4

## Unhealthy Globalisation

*The Siren who hides her true nature behind a false cloak of democracy and market freedom has laid claim to our soul and is feeding on our flesh. Her name is capitalism.*

– David Korten<sup>1</sup>

If anything is to be done about a global financial system that causes the poverty amidst plenty we have described in previous chapters, it must first be understood. Why do globalisers want to break national integrity and make a single world economy? Why does Third World debt keep increasing?

There are vast libraries dealing with the topic of globalisation and the growth of debt of developing countries, yet few address these issues from the perspective of how money is created. The early goldsmiths would indeed be surprised to see today's globalised world. Never did they imagine that interest-bearing debt would have enabled the centralisation of power to the degree where corporations can influence governments to rewrite the rule of international commerce in their favour and move towards a world with fewer and fewer currencies.

Although this chapter may read like a criticism of corporate capitalism, its actual purpose is to remind the reader that it is the money system, not the corporations themselves, that is the driving force behind the push towards greater centralisation of power.

We have already seen that this money system ensures that if economies don't

grow they collapse. Corporations are therefore at the mercy of this growth imperative, and those setting the agenda are the banks.

In his book *The Grip of Death*, Michael Rowbotham shows that if money is created as interest-bearing debt it leads inevitably to growing wealth disparity, increasing collective debt and dependence on economic growth. This in turn leads to export warfare as countries compete to reduce indebtedness, and to the irrational growth of world trade, devastation of the environment, continuing centralisation of corporate power and the erosion of democracy.<sup>2</sup>

### Defining Globalisation

There are two types of globalisation, one that is worth striving for and another that needs to be banished. The first is internationalism, the concept of the world as a global village made possible by instant communication and rapid travel, which holds the promise of shared knowledge, cultural interaction and a tolerant, cooperative, peaceful world. This sort of globalisation brings great benefits.

Corporate globalisation, on the other hand, is the worldwide spread of the philosophy of free trade, export-led development and free flow of capital.

Global corporations want unlimited access to raw materials and markets, and globalisation is the process through which they obtain these privileges.

Corporations and the supranational agencies therefore exert pressure on nation states to bring down their trade barriers, to deregulate and to open their countries to free capital flow. They want the world to be a borderless playground for their benefit.

Although the process of corporate globalisation actually started early in the 20th century, big business really went global after World War II, and this set the scene for a world order favouring such corporations as Coca-Cola, Walmart, Monsanto, R. J. Reynolds, Mitsubishi and General Motors. In his book *The Post-corporate World: Life After Capitalism*, David Korten points out that corporate globalisation is actually the antithesis of the really free market that influential economist Adam Smith advocated, which required capital to stay within national borders, trade between countries to be balanced, and complete information to be available to all participants with no trade secrets.<sup>3</sup>

Critics of corporate globalisation have focused primarily on its destruction of regional economies and erosion of national sovereignty, and on the contribution these agencies have made to the meltdown of the world's ecosystems.

#### Free Trade

A key ingredient of corporate globalisation is the doctrine of free trade. In his book *Goodbye America: Globalisation, Debt and the Dollar Empire*, Michael Rowbotham says that since every nation allows banks to create the bulk of their money supply parallel with debt, it is no surprise that all nations are in debt. This debt is mostly owed to the commercial banks and to the lending institutions of the world. Rowbotham goes on to state that, as at 1998: 'The USA owes nearly \$5 trillion, UK owes £400 billion, Germany's debt exceeds 600 billion Deutschmarks, and the Third World collectively owes \$2.8 trillion.'<sup>4</sup>

Debt promotes the growth of global trade, because each nation wants to reduce its indebtedness, and the way to do this is through exporting more than they import. The export warfare thus created is more than just sensible trading for mutual advantage. The past half-century has seen a growing demand for

trade; in fact, world trade has increased 16 times since World War II.<sup>5</sup> It is normal and beneficial to trade in goods, but it makes no sense for identical goods to be traded across borders, as happens with such items as furniture, clothing, cars, matches, toys, strawberries, wine, apples, cooking utensils and pencils.

### The Growing Power of Corporations

With the mergers and acquisitions forced on them by the economic growth imperative, many corporations now have revenues larger than nation states. A 1999 study of the top 100 corporations and national governments of the world showed that 66 are corporations and only 34 are governments.<sup>6</sup>

The power of investors has also grown. In his book *When Corporations Rule the World*, David Korten says that in 1999 fund managers were becoming increasingly aggressive by demanding performances such as 20 per cent growth in profits per year from companies; if they failed, their boards of directors and CEOs were fired. In the name of such economic growth, corporations are consuming the earth's natural capital of forests, fish stocks, minerals, water and atmospheric absorptive capacity.<sup>7</sup>

The centralised planning systems of global corporations influence the decision-making processes of sovereign nations and subvert natural democracy. Although elected parliaments debate national laws at length, major international agreements that override national laws are seldom even on the agenda for public discussion, despite the fact that they have profound effects on the citizens.

As a result, globalisation commodifies life forms and turns democratically elected governments into servants of corporate power. The winner in corporate

globalisation is transnational capital, while the losers are the environment, the poor, small farmers, small businesses, workers and democracy.

### The Demands of Corporations

As they become increasingly powerful, the global corporations are demanding more of governments. In their various guises, the corporations have placed relentless pressure on nation states to abandon economic and cultural protectionism, and instead adopt rules necessary for their long-term prosperity. As David Korten says, global corporations bear no allegiance to place, can demand tax breaks and public subsidies, and can move their plants to wherever labour is cheapest and environmental and employment standards weakest.<sup>8</sup>

The shelved 1990s proposal for a Multinational Agreement on Investments (MAI) showed how blatantly corporations act in trying to usurp the power of sovereign governments and local authorities. The MAI was an attempt by the world's richest corporations to legitimise, in binding international law, their freedoms to operate businesses globally with the least possible local or national government interference. Governments could have been sued if they had given preference to locally owned companies. The defeat of the MAI shows that corporate power can be thwarted by people power.

Michel Chossudovsky, a professor of economics at the University of Ottawa, has examined the Free Trade Area of the Americas (FTAA), which was signed in April 2001, and found that it is, in fact, more than just a trade agreement. Through the agreement, water, sewage systems, roads and municipal services can be owned and operated by private companies. As a

result, the FTAA has the power to destroy local economies, depress wages and impoverish millions. The agreement, entrenched in international law, annuls or invalidates national laws. As the US dollar has been imposed on Ecuador, Argentina, Panama, El Salvador and Guatemala, the FTAA is essentially an economic conquest by the US to form an empire embracing the entire continent.<sup>9</sup>

Increasing trade is to reduce indebtedness says that since every nation allows banks to create the bulk of their money supply parallel with debt, it is no surprise that all nations are in debt. This debt is mostly to the commercial banks and lending institutions of the world. In 1998 he said: It is normal and beneficial to trade in goods, but it makes no sense to trade in identical goods – furniture, clothing, cars, matches, toys, strawberries, wine, apples, cooking utensils and pencils.

Who's in Charge?

In 1991 I spent some time studying the interlocking directorships of companies in this country, and discovered that just 40 or so people ruled corporate New Zealand. They were the directors of companies involved in liquor, food and vehicle sales; in the media and telecommunications; in electricity and aluminium production; and in merchant banking, transport, and insurance. Two or three tax lawyers from big law firms appeared on several key boards, and the most powerful players also appeared to be directors of banks. I began to sense that big companies don't have to lobby government. In a way, they are the government – the government in the shadows. In effect, government has to go to the corporations, not vice versa.

Many others have spoken of invisible governments, unseen and unheard, a force international in terms of its power and grasp. US President Franklin Roosevelt, for example, said: 'A financial element in the larger centres has owned the Government since the days of Andrew Jackson.'<sup>10</sup>

Carroll Quigley, a prominent historian at Georgetown University, was given access for two years to the papers and secret records of financial capitalism in the US. The outcome of the research was a 1350-page book called *Tragedy and Hope: A History of the World in Our Time*. Quigley concluded that both the Democrats and Republicans were fundamentally subservient to special interests and that big business is really the dominant power:

*The powers of financial capitalism had another far reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements, arrived at in frequent private meetings and conferences.*

*The apex of the system was the Bank for International Settlements in Basle, Switzerland, a private bank owned and controlled by the world's central banks, which were themselves private corporations.*

*The growth of financial capitalism made possible a centralisation of world economic control and use of this power for the direct benefit of financiers and the indirect injury of all other economic groups.<sup>11</sup>*

## The Council for Foreign Relations (CFR) Origins of Globalisation

So how did corporate globalisation all start? Back in 1921, the Council for Foreign Relations (CFR) was quietly established to advise governments on international affairs. It published a quarterly journal, *Foreign Affairs*, for many decades, and its role has been to act as an intermediary between high finance, big oil companies, corporate élitists and the US government. Prior to its establishment, the US had for some time advocated an open global investment regime in order to advance the interests of its corporations. In New York after the end of World War II, the CFR prepared for the new global economy, which was later to include the establishment of the International Monetary Fund (IMF) and World Bank.<sup>12</sup> One chairman of the CFR was David Rockefeller, former chairman of the Chase Manhattan Bank.

## The Bretton Woods Conference

On 1–22 July 1944, the world's financial élite of 44 nations gathered together in the small New Hampshire town of Bretton Woods to set the post-war conditions for global economic recovery in order to prevent inflation. The eminent British economist John Maynard Keynes brought a proposal to the conference for a self-balancing trade regime involving an international currency he called the *bancor* (see page 000), but he was outmanoeuvred by the Americans, who wanted countries to have an imbalance of trade. As a result, it was decided that gold would be the official international currency, convertible to the US dollar at US\$35 per ounce. All countries then had to fix their



currencies to the US dollar.

The Bretton Woods Conference also established two institutions, the IMF and the Bank for Reconstruction and Development (later known as the World Bank). In addition, it laid the foundations of the General Agreement on Trade and Tariffs (GATT), which was to evolve in 1995 into the World Trade Organization (WTO).

The role of the Bank for Reconstruction and Development was to assist developing countries with long-term development programmes, while that of the IMF was to promote currency stability and liberalisation of international trade. Together with GATT, they were to unite the nations of the world in a web of economic prosperity that would preclude them from taking up arms. Today, the words 'Our dream is a world free of poverty' are still posted in large letters inside the glass lobby of the World Bank building in Washington, DC.<sup>13</sup>

According to Michael Rowbotham in *The Grip of Death*, 'The purpose of the IMF was to provide an international reserve of money – a financial pool upon which all member countries could call, whether rich or poor, should they hit a temporary balance of payments difficulty.'<sup>14</sup> Countries that contribute the most, such as the US, have the most influence over decisions made by the IMF. In addition, both the IMF and World Bank have to serve the shareholders of the world's biggest banks. Even today, the governance and administration of these bodies are secret, and their world is carefully shielded from public scrutiny and democratic debate.

While development and alleviation of poverty were the stated goals of the

Bretton Woods institutions, their underlying mission statement has been the expansion and integration of a global financial system and market on the US economic model. These initiatives together created massive markets for American goods and profits for US businesses that were unrivalled in the history of the world.

The hidden aim of creating an open world economy unified under US leadership has set the scene for economic colonisation.

Countries that contribute the most, such as the

If their goal was to relieve poverty, the IMF and World Bank have been extraordinarily unsuccessful, and as a result they have come in for a huge amount of criticism. The directors of these two powerful institutions point to records of loans, construction projects and technical assistance that they say have helped millions of people in developing countries. However, the large projects they fund often cause more problems than they solve and end up simply making the rich richer. In addition, loans come with conditions attached that force borrower countries to cut social spending and to follow free-market economic models, which open them up to western corporations and effectively destroy local industries.

This conditional system of lending has been blamed for the escalation of Third World debt. Historically, massive loans at low interest rates were negotiated for developing countries, but when the interest rates skyrocketed the World Bank and IMF demanded deep structural adjustments to the internal

policies of these nations in return for debt renegotiation. Debt-laden countries such as Mexico and Zambia had to reduce the role and scope of their governments dramatically, slashing funding for public education, pensions and health care; they had to deregulate transportation, telecommunications and utilities sectors; they had to lower minimum wage and working standards; they had to replace traditional agricultural systems with corporate agribusiness to grow cash crops for export; and they had to sell off state assets. Most importantly, barriers to foreign investment had to be removed, and transnational corporations and investment agencies were given preferential treatment over local businesses. In spite of all the sacrifices made by developing countries, their overall debt according to UN statistics grew from US\$567 billion in 1980 to US\$1.4 trillion in 1992.<sup>15</sup>

### The UN Fights Back

Since its inception in 1945, the UN has been locked in a battle with the global corporations and with its own agencies for the right to control the investment regime of nations, but it seems the corporations are winning.

In 1947, the US government scuttled moves to establish an international trade regime that would have obliged member countries to incorporate the provisions of the UN Declaration of Human Rights, setting standards for full employment, working conditions and social security. It chose instead to engineer GATT in its favour by negotiating the reduction in trade tariff barriers so that world markets would be opened up for US goods.

Prompted by the concern of developing countries that their small economies were being invaded by mega-corporations, the UN enacted a charter of Economic Rights and Duties of States in 1974, proclaiming that member nations have the 'inalienable right to regulate and exercise authority over foreign investment'. This meant that it granted nations the right to supervise the activities of transnational corporations.

However, it wasn't long before the code of the UN was subverted. The global corporations felt that the developing countries had too much influence in the UN, so eventually, in the early 1990s, the major powers decided to reform and reshape the organisation. As a result, the UN's authority on economic and social issues was transferred to the IMF, the World Bank and the WTO, institutions that are controlled by the richer countries of the world. Unlike the UN, whose decisions are made on the basis of one country one vote, the decisions of the IMF and World Bank are made on the basis of one dollar one vote – in other words, those who have the most money have the most say.<sup>16</sup>

### The Invisible Governments

As discussed earlier in this chapter, there are a number of secretive organisations in existence that are dominated by big business interests and that seek to influence governments.

### Bank for International Settlements (BIS)

Formed in 1930 and based in Basle, Switzerland, the BIS comprises representatives of the 11 central banks of the world's most powerful nations. It is known as the central bank of central banks, and has been described by historian Carroll Quigley as the apex of the invisible governments (see page

000).

### Round Tables

The original Round Table was established by British financier Sir Cecil Rhodes and bankers Lord Anshell Rothschild and Alfred Milne in 1891 as a 'think tank' designed to influence the foreign policies of governments.<sup>17</sup> Over the years, a number of similar business round tables have been set up.

### The Bilderberg Group and Trilateral Commission

The Bilderberg Group comprises heads of state, other politicians, key industrialists and financiers, and first met in 1954. As Japan rose in terms of economic power and influence through the early 1970s, it soon became clear to the Bilderberg Group that a new organisation including Japan was needed.

As a result, in 1973 the Trilateral Commission was formed, with David Rockefeller (former chairman of both the CFR and Chase Manhattan Bank) as one of its founders. Members included heads of the world's five largest transnational corporations, top officials of five out of six of the world's largest banks, the heads of major media organisations, politicians such as Jimmy Carter, George Bush and Alan Greenspan, and the head of the CIA.<sup>18</sup>

The philosophy of the Trilateralists has come to be known as the 'Washington Consensus'

(see below), while major goals of the commission are deregulation, economic globalisation and the limitation of corporate liability.

### The Washington Consensus

The philosophy of the Trilateral Commission, the so-called Washington Consensus, puts the needs and rights of capital and corporations above those of nation states and their citizens, and is fundamentally opposed to the concept of citizen and nation-state democracy as enunciated by the UN Declaration of Human Rights. According to the doctrine of the Washington Consensus, governments have to be willing to give up their controls on foreign investment, and must prepare their citizens for competitive labour conditions and the privatisation of education, health, social security and the entire infrastructure on which corporations depend. 'Later', they say, labour and human rights issues will be addressed. The globalisation of this ideology requires the technology to create a borderless economic system, as well as the political cooperation of national governments to establish a set of globally recognised rules to protect investors.

#### World Economic Forum (WEF)

The WEF is another powerful and unaccountable body that makes major decisions about the kind of world we will live in. Like its kindred organisations, the WEF is an exclusive, unelected, invitation-only organisation – a think tank and a driving force behind the global economy. It has consultative status with the UN, a staff of 80 and a corporate-funded annual budget of US\$10 million. Members include CEOs from the world's top global corporations, academics, trade ministers and heads of state. Élite members of the media attend as guests. WEF summits allow the richest and most powerful corporations in the world to mingle with national trade representatives and with each other, to make business deals, and to determine global political and economic policies.

Before the rise of anti-globalisation protests in the 1990s, the WEF held its

annual meeting in the small ski-resort town of Davos in the Swiss Alps. According to the WEF, their meeting is now considered to be the global summit that defines the political, economic and business agenda for the year. Its 1982 annual meeting brought together the cabinet members of major countries with heads of international organisations such as the World Bank, IMF and GATT. This special informal gathering of trade ministers from 17 countries organised the launch of the Uruguay Round, which is where the WTO was founded.

#### World Trade Organization (WTO)

The WTO, founded in 1995, was created by the Uruguay Round negotiations (1986–94) and grew out of GATT. The WTO, with its headquarters in Geneva, has 139 member countries and was designed to remove barriers to trade. Child labour, prison labour, forced labour, substandard wages and working conditions are all permitted under the WTO. The organisation is also undemocratic. In a speech made in May 2000, Martin Khor of the United Nations Third World Network said, 'The WTO has a system of decision-making that at crucial moments has excluded most developing countries.'<sup>19</sup>

#### Organization for Economic Development (OECD)

The OECD was formed in 1961 and is made up of the 29 most powerful economies on earth. In the 1970s the member states were all dominated by large capital exporters and consequently shared US hostility to the continued insistence of the developing world to set conditions upon foreign investment. The seeds of the MAI (see page 000) were planted in the OECD in the 1960s.

Over the years these spawned a number of Business Roundtables.

### The Pact for Silence

Until the Internet transformed communication among the world's non-governmental organisations (NGOs), the globalisation agenda was never given much publicity, which is just the way the global corporations wanted it. Here is a chilling excerpt from a speech given by David Rockefeller at a Trilateral Commission meeting in 1991:

'We are grateful to the *Washington Post*, the *New York Times*, *Time* magazine and other great publications, whose directors have attended our meetings and respected their promises of discretion for almost forty years. It would have been impossible for us to develop our plan for the world if we had been subject to the bright lights of publicity during those years.'<sup>20</sup>

Politicians have tended to keep quiet about globalisation too, as

many see it as an inevitable phenomenon that must be accepted. New Zealand Prime Minister Helen Clark, while stating after Seattle that she wanted the WTO to incorporate environmental and labour standards, has been a strong champion of globalisation in recent years.

### The Backlash Against Globalisation



When an enemy is powerful and centrally organised, paradoxically it can be very vulnerable – as in martial arts, the power can be used against itself. Consequently, ordinary people are now using the power of the multinationals to break them down.

Thanks to the Internet and cheaper international phone calls, the anti-globalisation movement has ensured that every international meeting of a global institution now meets opposition. People from all walks of life – independent businesses, churches, universities, unions and civic organisations concerned with democracy, economic justice, peace and the environment – and from all over the world follow the calls to action that are now posted on the Internet.

When the group of the eight most powerful nations of the world, the G8, met in Birmingham, in 1998, there were 70,000 protesters on the streets. Then, in December 1999, some 50,000 citizens protested peacefully on the streets of Seattle for four days to ensure that there would be no new round of trade negotiations by the WTO. They did not want globalisation to accelerate or expand, and were successful in their aims.

At the time, Indian ecologist Vandana Shiva said:

‘The next challenge is to turn the rules of globalisation and free trade around, and make trade subservient to higher values of the protection of the earth and people’s livelihoods.’<sup>21</sup>

In April 2000, when the IMF and World Bank met, more than 40,000 people attended a giant rally on the Ellipse behind the White House in Washington DC. A sign taped each protestor’s back said: ‘Stop the loan sharks at the IMF/World Bank.’ Then, on 11 September 2000, despite bitter weather conditions, over 5000 people

gathered by 8.30am in Melbourne to attempt to block delegates arriving at the WEF meeting that was being held there. New Zealand Finance Minister, Dr Michael Cullen, was a delegate. When Prime Minister Helen Clark warned protesters that, 'Globalisation is a fact ... it has happened, it is happening and it will happen,' Green Party Co-leader Rod Donald responded that, 'Corporate globalisation is as dangerous as nuclear power.'<sup>22</sup>

The vast majority of the protesters came from mainstream churches, unions, universities, independent businesses and a wide variety of civic organisations concerned with such issues as democracy, economic justice, peace, and the environment.

Mobilisation is now possible through the Internet. This call to action appeared on the e-mail in boxes of thousands round the world:

In late September 2000, the 55th Annual Meetings of the IMF and World Bank were held in Prague amid clashes between 11,000 police and 9000 protesters. During the meeting, World Bank President James Wolfensohn told an audience, 'Outside these walls, young people are demonstrating against globalisation.'<sup>23</sup> In an editorial, *The Economist* stated that the movement was dangerous because it was influencing the WTO, the World Bank and the IMF, and empowering the less radical of the anti-globalisation NGOs. The article went on to voice the concern that governments were apologising for globalisation and said that if protesters got their way it would be an 'unparalleled catastrophe for the planet's most desperate people'.<sup>24</sup>

In January 2001, protesters demonstrated in Davos, Switzerland, at the WEF meeting. On May Day 2001, protests were organised in many centres of the world against the multinationals, closing down branches of McDonald's, Sarmart and KFC. In April 2001, when protesters converged on Quebec for the Summit of the Americas, Canada's federal government spent US\$46 million building a 3m-high wall around the city centre.

And in July 2001, demonstrations in Genoa at the G8 Summit became violent, with hundreds injured and one dead. After the summit, the leaders of the G8 issued a statement saying that, 'globalisation must work for the poor nations'.<sup>25</sup>

### Reform or Destroy?

The triumph of capitalism is that the global institutions of economic colonisation have quietly held sway through many decades, ensuring that the world is run for the benefit of the extremely wealthy few. In his book *Open Society: Reforming Global Capitalism*, financial speculator George Soros argues that the global corporations should be reformed, but says his plan must remain a secret.<sup>26</sup> On the other hand, Martin Khor, of the United Nations Third World Network, argues that there are no benefits to globalisation:

'We cannot just talk of sharing better the benefits of globalization. We have to fight the system of the globalisation we have today.'<sup>27</sup>

When politicians like Tony Blair and Helen Clark speak of the inevitability of globalisation and a borderless society, it leaves us trapped in an intellectual cul-de-sac. But theirs is not the last word. There is nothing natural or inevitable about an economic order that restricts half of the world's 6 billion people to an income of less than US\$2 a day.

We need a new and better model of globalisation; borderless worlds where the strong exploit the weak are not sustainable. The corporate globalisation we suffer today is creating a world economy that is fast becoming a monoculture, a centralised monolith damaging cultures and killing life in the name of money. As we shall see in Part 2, what we need is a model organised along the lines of living systems, which will provide us with the complexity and diversity we need.

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TWs dA distribution to NGOs.

*Moodbye America Glosatio trfare. Beyond Globalization Shaping a Sustainable Global Economy* Hazel Henderson for the New Economics Foundation Kumarian Press 1999

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*The Gods ks*, 1993 has a detailed acDavid Rockefeller, founder of the Trilateral Commission, in an address to a meeting of he Trilateral Commission, iune 1991.

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## 5 Economic Mismeasurement

*Economics has reached the point of attributing a positive value to the pregnancy of a cow, because it raises GDP (Gross Domestic Product), and ascribing a negative one to a woman's pregnancy, since it not only hampers her productivity but also diminishes her per capita income by delivering another mouth to feed.*

– Cristovam Buarque<sup>1</sup>

This chapter examines the validity of one of the most commonly used economic indicators, gross domestic product (GDP). Of all the doctrines of orthodox economics, the teaching that economic growth is synonymous with progress is probably both the most pernicious and the most deeply entrenched. Despite the fact that the world economy has grown five fold in the last four decades<sup>2</sup> while income disparity has widened, the cry still goes out: 'Grow the cake, then we can all have more.'

Unfortunately, as we have seen, the process used to grow the cake contains an in-built fault, in that it also grows income disparity. New Zealand's GDP more than tripled in the years between 1983 and 1998, yet few would claim that we were better off.

Every day we hear politicians, commentators, business editors, political reporters and economics reporters pondering over whether the growth figures will be 'strong'. In varying forms they speak of the 'lack of economic growth' or, more fashionably, but quite missing the point about sustaining the ecosystem on which we depend, the need for 'sustainable strong economic growth'. It is quite common for commentators even to advocate accelerating economic growth. As former World Bank economist Herman Daly points out, 'Not only must we grow forever, we must accelerate forever.'<sup>3</sup>

Although economists have known for years the shortcomings of using a single economic indicator and textbooks have warned of the practice for decades, critics rarely speak up during these discussions. Talk of recovery, rates of growth and expansion dominate media stories on economics. The word 'economy' is still used to mean the size of the economy and its rate of its growth.

Ruth Richardson, Roger Douglas and David Caygill have all sung the same song. Michael Cullen made 12 references to growth in his 2001 May Budget speech. When he gave up his job as Governor of the Reserve Bank for a place on the National Party

The emphasis is always on the single indicator, the GDP. Recessions, recoveries, booms, downturns and economic growth all relate to GDP. As we stand transfixed before the figure that represents the size of our money economy, no one stops to ask the basic questions: is GDP a suitable primary scorecard for our well-being? What has grown? Have our levels of success and happiness really improved?

The manifesto goes on to examine what causes unnecessary and dangerous growth. It talks of pathological or cancerous growth, of our obsession with conspicuous consumerism and the end of the industrial age. Others, they said, believed beech felling on the West Coast and selling cheap power to Comalco were all justifiable because they provided jobs.

### Origins of GDP

Systems of national accounting originated in the UK in the 17th century, but were only developed to the form we see today in the first half of the 20th century. Economist Arthur Bowley, with assistance from Sir Josiah Stamp (who worked for the Inland Revenue and was a keen advocate of better methods of keeping statistics), used income and tax figures to produce a book called *The National Income, 1924*.<sup>4</sup> Colin Clark made a much more comprehensive study of national accounting in 1937, and established the measure that we now call gross national product (GNP).<sup>5</sup>

During World War II, the United Nations System of National Accounts (UNSNA) was developed in the UK, and was subsequently adopted in the US and by all other nations following the Bretton Woods Conference of 1944. This accounting system, which counts money and produces GNP and GDP figures, was further revised in 1953 and 1968.

The measurement of GNP was evolved in the UK during World War II to help keep the focus on paying for the war effort and to ensure that Britain did



not return to the depression of the 1930s.<sup>6</sup> As evidenced by John Maynard Keynes's paper, 'The National Income and Expenditure of the United Kingdom, and How to Pay for the War',<sup>7</sup> GNP was never meant to be a measure of well-being. In *Counting for Nothing*, Marilyn Waring points out that it was in fact designed to value bombs, bullets and tanks.<sup>8</sup> GNP sets at zero the value of the natural environment and human resources, and masks a trend towards greater inequality in incomes.

The Nobel prizewinner Simon Kuznets gave the GNP its final form in the 1960s and did most of the work on its development. He also knew its shortcomings and became a knowledgeable critic of the system: 'The welfare of a nation can scarcely be inferred from a measurement of national income as defined [by the GNP]. Goals for "more" growth should specify of what and for what.'<sup>9</sup> Despite Kuznets' warning, few listened to him.

Essentially, GDP is the sum value of the goods and services produced in a country, while GNP is GDP plus the net national investment income. In New Zealand's case, this figure is negative, because we send more overseas (in form of dividends, profits and interest) than we earn overseas from investments.

, Al Bowley and Colin Clark worked on developing national accounts. It was natural that during the design of the national accounts, bankers were involved, because banks needed some way to protect their loans and ensure the interest was paid.

The United Nations System of National Accounts (UNSNA) came into existence in Britain in 1941, and in the US after Bretton Woods in 1944. Each nation was required to adopt it.

In her book *Counting for Nothing*, Marilyn Waring describes how the GNP evolved as an emergency measure during the Second World War to help focus on paying for the war effort and ensure Britain did not return to the depression of the thirties. But it was Simon Kuznets who gave the GNP its final form and did most work on its development. He also knew its shortcomings. For 20 years Kuznets became a knowledgeable critic of the system.

#### A Faulty Indicator of Progress

There are a number of reasons why GDP should not be used as a measure of progress:

1. The GDP is simply a measure of market activity, and makes no distinction between the desirable and the undesirable, or the sustainable and the unsustainable. In this accounting system, floods, earthquakes, oil spills, divorces, litigation, lung cancer, wars, burglaries and traffic crashes all register as positive. The cost of treating tuberculosis, Aids and other diseases adds to the GDP of developing countries, and disaster is portrayed as gain. Every economic activity goes into the GDP whether or not it adds to or subtracts from our well-being, or is there just to mop up the damage done by some other economic activity. We add in the sale of food and also the sale of slimming programmes, and polluting activities as well as the cleaning-up costs after the pollution.

2. It ignores productive work that is unpaid. Such activities include raising children, cooking meals in the home, growing vegetables at home, taking care of the elderly and sick in the home, all voluntary community work and all the informal barter economy. Statistics New Zealand/Te Tari Tatau announced in May 2001 that the value of unpaid work in New Zealand in 1999 stood at NZ\$40

billion, equivalent to 39 per cent of GDP. They said that 87 per cent of the estimated value of unpaid work consisted of activities such as cooking, cleaning, gardening and providing care. The remaining 13 per cent was for other household work and for work the community. They calculated the value using the median housekeeper's annual salary at the time of NZ\$13,820.<sup>10</sup> But, of course, this NZ\$40 billion didn't show up in the 2001 GDP figures.

If we hang our washing on the line we do nothing for the economy, but by placing it in the dryer we are helping. Spending money at a gym and taking a taxi home are good for the economy, but walking home under our own steam is useless. Buying vegetables adds to the economy, but growing them doesn't. If we raise our own children, fix our own cars, cook our own meals, care for our elderly, support our friends and family, and make our own music, we do nothing at all for the GDP. Being pregnant, chasing toddlers and breastfeeding do not add to the GDP, but looking after other people's children in a daycare centre does.

3. The value of the environment is measured at zero. The GDP does not account for the depletion of non-renewable resources, so economic activities that draw down on our natural capital are seen as adding to our well-being. Felling a forest, draining a swamp, diverting a river, relocating a town and depleting an aquifer all add to the GDP, whereas leaving them untouched doesn't. Mining for gold, overfishing, growing genetically modified food, producing cars that spew out greenhouse gases and spraying crops with chemical pesticides are all officially good for the economy.

4. It treats education as a cost rather than an investment. Although capital

works projects such as buildings register as investments, the salaries of teachers are rated by GDP as an expenditure.

5. It does not measure the poverty gap. Even the figure for real GDP per capita cannot hope to give an indication of this. If a few are billionaires while millions live in abject poverty, the 'average' income will have little meaning.

6. The GDP indicator is linear in nature. This should ring alarm bells for us, because a stable and sustainable model cannot emerge when there are no feedback loops to restore balance. A single variable must be maximised at all costs.

### Criticisms of GDP

Critics of the use of GDP as an indicator of progress are classified as either environmental economists, feminist economists or monetary reform economists, and have been voicing their opinions for decades. Hazel Henderson, for example, has written on the topic since the early 1970s. She argues,

'Trying to run a complex society on a single indicator like the Gross National Product is literally like trying to fly a 747 with only one gauge on the instrument panel. There would be nothing to tell you whether the wing flaps were up or down, whether the fuel tank was full, or what the altitude was. In effect you'd be flying blind.'<sup>11</sup>

Henderson describes the market economy as 'just one layer of the economic cake'. She says that the market economy rests on the government and local government infrastructure sector, which rests on the non-market economy,

which in turn rests on nature itself. In the market sector, goods and services are priced and exchanged using money, while in the non-market sector goods and services are unpriced. The non-market sector makes up a large part of what we use and enjoy, like our environment, relationships, culture and infrastructure, and all the unpaid work we do inside and outside the home. Many of the important things in life are free.

Marilyn Waring, former chairperson of New Zealand's Select Committee on Government Expenditure, claims that GDP is not just inaccurate and meaningless, but gives us such a false picture that is actually 'chronically malevolent'.<sup>12</sup> Waring states that GDP cannot respond to values it does not recognise – in other words, the environment and the work of women and volunteers. Her criticism is scathing: 'Economics is an arcane and dangerous ritual practised mostly by men.'

Irish economist Richard Douthwaite, also a critic of GDP, says, 'The unquestioning quest for growth has been an unmitigated social and environmental disaster ... Almost every social indicator has worsened over the third of the century the experiment has taken. Chronic disease has increased, crime has gone up eightfold, unemployment has soared and many more marriages are ending in divorce.'<sup>13</sup>

So what grows when the GDP grows? As activities such as production in the household move into the formal economy, as backyard advice is replaced by professional counselling and as forests are felled, the formal economy

cannibalises the informal economy. Nowadays, a major portion of what shows up as GDP growth is a result of either: shifting activities from the non-money household and community economy to the money economy (for example, restaurant meals replacing home-made meals); depleting natural resource stocks by borrowing resources from the future (for example, cutting down indigenous forests); or defending ourselves against the consequences of growth and fixing past blunders (for example, cleaning up toxic dumps or soundproofing homes to keep out increased traffic noise).

During the 1980s, an organisation emerged in San Francisco called Redefining Progress (RP), whose aims were to work with a broad array of partners to shift the economy and public policy towards sustainability. RP does this by measuring the real state of our economy, our environment and social justice with tools like the Genuine Progress Indicator (see page 000) and the 'ecological footprint' (see page 000). In October 1995, *Atlantic Monthly* published an article by the founders of Redefining Progress, Clifford Cobb, Ted Halstead and Jonathan Rowe. The title of the article was 'If the GDP is Up, Why is America Down?', and it went on to say, 'The gross domestic product (GDP) is such a crazy mismeasure of the economy that it portrays disaster as gain. A new economic barometer might transform our society.'<sup>14</sup>

### Why Do People Still Support GDP?

If GDP is such a poor indicator for measuring progress, why is it still accepted by economists, politicians and financiers? Again, it all comes back to our unhealthy system of money creation, which demands that profits must always

increase. And when jobs are created, that's what counts – not the costs to society and the environment, which in GDP terms, or course, are not 'costs' at all.

Since the economy as it is now structured must either grow or collapse, there is little option for economists but to recommend economic growth, no matter what the consequences. When the alternative to growth is economic disaster, economists are trapped. The politicians, meanwhile, can – but seldom do – reject equally disastrous alternatives offered to them by the economists and demand that their policy advisers offer them viable options.

Authors of macroeconomics textbooks note that there are environmental and social costs to economic growth, but they rarely examine the source of the problem – the interest-bearing money system. This system demands ever more indebtedness, a bigger and bigger money supply, more and more land collateral for the banks, and forced economic growth. Much of this growth burdens the planet and tears communities apart.

One of the difficulties faced by economists is that the consequences of reform are colossal. Shifts away from the single GDP indicator would require the rewriting of economic textbooks, the revision of courses in universities and schools, and a complete change to the way money supply is created. The revamping of prestigious business and management programmes in all tertiary education institutions is not a small task. Since powerful vested interests will fight to retain both the UNSNA and the privileged rights of commercial banks to create the money supply for their own profit, who is going to rock the boat?

In order to come up with a workable alternative to GDP as a measure of progress, we need to ask the right questions. In June 1996, I attended a New York conference on sustainable economics and listened to a speech from Mollie Olsen, a member of President Clinton's Council on Sustainable Development. The president had appointed an unlikely combination of people to this task force – the CEOs of Dow Chemical, Ciba Geigy and Chevron were to work with top bureaucrats, environmentalists and indigenous people. There were 400 people and eight task forces. Olsen told us:

*For a while we could see no common ground. The growth conversation was problematical and caused a great deal of tension. Then someone asked the right question. 'What precisely is it that we want to grow?' And everyone had to change the lens through which they looked at the world. They didn't want growth of poisonous or polluting chemicals, agreed. The CEOs said I'd get fired, and asked for a level of trust. People then stated their assumptions and values.<sup>15</sup>*

Over the years there have been several attempts to adjust the GDP to produce a more meaningful single indicator. This work is often called natural resource accounting. One such indicator is the United Nations Human Development Index (HDI), which ranks countries according to a mix of various measures, including GDP per capita, life expectancy, adult literacy rate and percentage share of household incomes accruing to the lower four deciles of households.<sup>16</sup>

Another single indicator is the Genuine Progress Indicator (GPI), which was developed in the US and in the UK, where it is known as the Index of Sustainable Economic Welfare. The GPI includes an estimate of the non-market economy, adjusts for income inequality, and subtracts social and economic costs



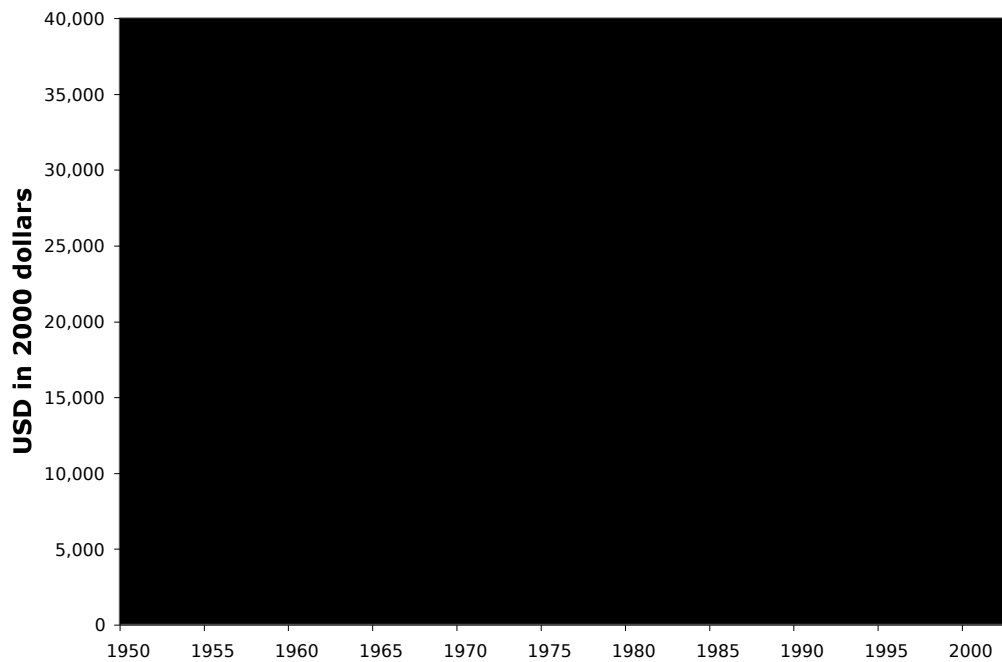
rather than adding them to the whole.

The graph below, sent by Redefining Progress, was created in 2004 using figures collected by Jason Ventoulis and Cliff Cobb. To calculate the GPI, first a nation's personal consumption is taken, then categories of spending are added or subtracted depending on whether they enhance or detract from the nation's wellbeing. The services of highways and streets are added in, along with the services of consumer durables and the time spent on household work, parenting and volunteer work. Items that are subtracted include loss of farmland and wetlands, the cost of commuting, loss of leisure, cost of crime and cost of water.

Comparing GPI with GDP, Redefining Progress calculated in 2004 that the economic health of the US had in fact been overestimated by some US\$7 trillion. Emphasising the drawbacks of GDP in a media release, the organisation stated that: 'The wrongdoings of Enron alone will contribute up to \$1 billion to the US economy, in the form of legal fees, jail time, media frenzy and associated payouts.'<sup>17</sup>

The graph shows that the GDP in the US has risen steadily. The GPI, meanwhile, started below the GDP in 1950, rose until the 1970s, and since then has gradually declined. The gap between the GDP and GPI is now very wide.

In fact, the rate of decline of GPI accelerated during the 1990s,<sup>18</sup> which is why we don't feel any better off even though GDP has increased. As Clive Hamilton, Director of the Australia Institute, says, 'In the presence of sustained economic growth throughout the 1970s, 1980s and 1990s, Australians have been strangely restive. They are disgruntled, fractious and suspicious of the claims by politicians that the economy is doing well.'<sup>19</sup>

**GPI per capita vs GDP per capita (USA 1950-2002)**

New players are also coming up with new indicators. The World Bank, recognising that economic growth leads to rapid resource depletion or degradation and major health and productivity costs, has stated that it 'is probably neither sustainable nor desirable'.<sup>20</sup> The organisation has attempted to measure redefined wealth to include produced assets, natural resources, healthy ecosystems and human resources. Human resources include (raw labour, human capital and social capital). Social capital, the total level of trust between economic actors in a society, has been added most recently because countries with similar endowments of natural, physical and human capital have

achieved very different levels of economic performance. Social capital brings cohesion and has been called ‘the ether within which societies use and combine physical, natural and human capital.’<sup>21</sup> We will see later in Part 2 how complementary currencies increase social capital.

In the same report, the World Bank environmentalists attempted to green their statistics by calculating natural capital. They added together pastureland, cropland, timber resources, non-timber resources, protected areas and subsoil assets. Then they added in human resources, produced assets and natural capital to produce just one figure. However, such attempts are fraught with problems, because it becomes impossible to add all the natural capital – including water, air and land.

#### Towards Unbundled Indicators

Despite the emergence of such new improved single indicators, by their very nature these will inevitably continue to give strange results. Including income disparity figures with adult literacy rates and life expectancy is an exercise in adding together apples and pears, and both Hazel Henderson and Marilyn Waring have warned against this tendency. Rather, they suggest that a range of indicators is assembled, which together build a profile – much the same way forecasters predict the weather and doctors make diagnoses.

The desire to aggregate indicators is reductionist and produces only meaningless results. If human beings can cope with complexity in one field, they can cope with it in another, and so indicators should remain unbundled. Henderson said in 1991, ‘Many now share my view that such new indicators must remain “unbundled” so that ordinary citizens can clearly understand how

they relate to goals in education, health, housing, political participation, cultural goals and environmental safety.<sup>22</sup>

Even the GPI, which is a considerable advance on the GDP, aggregates items that shouldn't be aggregated. In the Redefining Progress study released in December 2001, household work and parenting were put at +US\$ 2000 billion, while the cost of long-term environmental damage was listed at -US \$1,100 billion.<sup>23</sup> Similarly, the World Bank's figure for human resources, which helps create the total Wealth of Nations figure, is arrived at by a complex method relating to the GDP and other measures, but it doesn't involve accounting for the productive work in the non-market economy, a figure that often works out as being similar to or more than the GDP.<sup>24</sup> In addition, the aggregated natural resources include land, but not air or water, which are considered too hard to measure.

If it is too hard to put a dollar value on nature, then an alternative is obviously needed. It is just as easy and more useful to find a range of indicators, such as those chosen by a group of local people. Several towns in the US and the UK have undertaken this exercise in deciding to 'measure what we treasure'. In Jacksonville, Florida, for example, indicators were started in 1984, prompted by the Chamber of Commerce, which wanted to get beyond single economic indicators and include measures of a healthy community and good quality of life. The headings they chose were, in order of importance: education, economy, public safety, natural environment, health, social environment, government/politics, culture/recreation and mobility. At a conference on local indicators in Seattle in 1996, attended by representatives from many cities with indicator programmes, it was noted that an education indicator was commonly

placed at the top of the lists.

Such local indicator programmes are studied and coordinated by the New Economics Foundation in London and by the Redefining Progress organisation in San Francisco.

In the late nineties *Sustainable Christchurch* set up a group called *Dialogue*, which embarked on a local indicators project. Chosen democratically by the people, the top indicator was the air pollution index in the winter.

In contrast, the Canterbury Development Corporation had arbitrarily chosen the following indicators. When citizens freely choose their own benchmarks of progress, it is not surprising that they often value the non-market sector of the economy. Studies of values have repeatedly shown that money is seldom seen as important as love, a sense of belonging and leisure time spent with children. As Lowell Manning, in his paper 'GDP or Bust', says: 'Few would exchange a quality of life measured by clean air, a well-kept environment, a warm and comfortable home, an affectionate family, fulfilling relationships and a great social life for sleeping, with pockets full of money, in a drawer in central Tokyo.'<sup>25</sup> A New Zealander returning from Europe appreciates anew the clear sky and pure water. Few people use the word

Nice try, but twenty-eight years later little has changed.

The growth areas of the US economy in the last few years have been largely in four areas – entertainment, financial services, gambling and prisons. All

producing jobs no doubt, but at what cost to society? In an Alice in Wonderland accounting system, this all shows up as gain.

Green Co-Leader Jeanette Fitzsimons told Parliament in her June 2000 Budget speech, and the work has subsequently been developed:

The Economists

\$3.8 \$18.9 trillion, according to David Krten *ations Rule the World*

*he National Income 1924* Josiah Stamp address in Central Hall, Westminster, 1937

199 OBR *Development R* Hazel Henderson, *Paradigms in Progress*

## 6 Facing the Critics

Through the first part of this book we have looked at how money is created and the problems associated with this system. Before we move on in Part 2 to look at healthier alternatives, I want to revisit the arguments that support the status quo and answer any critics I may have.

**Banks have always issued money as interest-bearing debt; that is the function of banks.**

It is true that several centuries ago goldsmiths printed receipts for gold they didn't have, lent them out and charged interest on the loans. That they got away with this deceit is an unfortunate historical fact, but it doesn't justify the continuation through the centuries of a banking system in which the banks will collapse should all their depositors come at once for their money. Nor does it justify an inherently inflationary and unsustainable money system.

The practice of issuing money as interest-bearing debt, which many describe as fraudulent, has now become entrenched in academic, business and government institutions. Universities teach that it is the function of banks to create money and then to charge interest on this money. This is regrettable, because universities are supposed to teach people to think and to question, not to justify centuries of past errors. Full evidence only becomes available to us when, from time to time, governments order public enquiries into banking and credit. The last time such an enquiry was held in New Zealand was in 1955, which closed with the Solicitor-General citing case law dating back to a 19th-century judge's decision in favour of fractional reserve banking.

I agree that there is nothing wrong with creating money out of nothing because that is what creation is. And I agree that there is certainly nothing wrong with creating money as debt when money is spent into circulation, since all money is essentially an IOU, or a debt. And nor is there anything wrong with publicly owned banks creating debt-based money on behalf of the public, *as long as it is created interest-free.*

But if commercial banks create money as interest-bearing debt and this scarce currency comes to dominate – as it has today – then we certainly have an unbalanced and dysfunctional money system.

**Banks provide a service by creating the money supply. Part of this service is that they collect surplus money and redirect it into investments.**

Yes, someone has to create money, but not as interest-bearing debt. Islamic banks and trade barter companies create money as debt, and this is seen as a service. This interest-free money does not start a debt spiral, nor does it systematically transfer money from the majority to the minority. But in providing this ‘service’, banks shape the social system and stand to gain. As economist John Galbraith wrote in his book *Money: Whence it Came, Where it Went*: ‘The discovery that banks could [so] create money came very early in the development of banking. There was interest to be earned. Where such reward is waiting, men have a natural instinct for innovation.’<sup>1</sup>

When they redirect surplus money into profitable investments, banks take little risk. This is in contrast with Islamic banks, which share the risk by becoming joint owners of the business until the contract is renegotiated. But in



the interest-based system, the creation of new loans must always outpace the repayment of loans, or the system will collapse.

**There is no debt spiral. Borrowers only borrow money on the basis that they expect their incomes to rise sufficiently to be able to repay it, plus interest, partly through the returns they expect to make on their 'real' investments. If the returns on their 'real' investments are greater than the interest rate they are paying on their borrowings, then their debt will actually decline as a proportion of their income, not spiral at all.**

It is important here to think in terms of populations of debtors, not just individual debtors. It is true that for many individual borrowers there is no debt spiral. However, epidemiologists, who study the incidence and causes of disease, regularly have to explain to the public that *one cannot generalise from the individual to the whole*.

As a group, debtors will continually owe more and more money; they can't repay both the capital and the interest on the loan without incurring more debt. The system must always have its losers, and as a result there is a *debt spiral of total debt*.

People need to think in terms of whole systems. The money system is really like a game of musical chairs in which there are always fewer chairs than there are people to sit on them. In musical chairs everyone knows the rules of the game,

but few citizens are also aware that a similar chronic shortage is a key feature of our financial system!

**When a bank creates a new loan, the assets of the bank increase by the same amount as the liabilities, so everything balances and there are no problems. There is just an asset sheet expansion and it doesn't mean that total debt has risen at all.**

It is this very 'asset sheet expansion' that is eating into the planet's natural capital. Continual asset sheet expansion demands that there be continual economic growth – an impossibility on a finite planet. For instance, when fish are left in the sea to replenish stocks, they are not considered a monetary 'asset' to the economy; only when they are sold in the markets are they classed as such. With this perpetual pressure for the economy to grow, the rate of extraction of fish starts to exceed their rate of regeneration, leading to an unsustainable situation. So the continuing expansion of the money supply leads to the continual monetisation of natural capital and to the depletion of natural resources.

Things wouldn't be so bad if the rate of growth was decreasing, but it is actually increasing. Compound interest means that the money supply has to grow exponentially. As the curve goes up and up it cannot be sustained, and so from time to time it has to collapse.

To argue that 'everything balances' sounds convincing, but when 'money' balances it doesn't mean that the social and environmental consequences are

good or fair or sustainable. An economy can only be healthy if it is set within a sustainable ecosystem.

And it can only be healthy if it is part of a just social system. When the bank's assets (the loans it has made) balance its liabilities (the deposits it holds), that is fine for the bank. The liabilities of the bank are the deposits held by the people. But for the people, a minority of depositors are in a net asset situation while the majority is in net debt. That is why on this planet we have a small number of billionaires coexisting with billions of impoverished poor.

### **The net debt of society hasn't increased.**

The 'net debt' of society is the 'total debt' minus 'assets'. Although net debt may not have increased, the distribution of society's assets and debts is inequitable. A few hundred people possess billions of dollars of assets, and these are held in a variety of forms – shares, bonds, land, buildings and cash. The value of shares and land will increase over the years, particularly the value of land.

A Helmut Creutz study cited by Margrit Kennedy in her book *Interest and Inflation Free Money* divides the population into ten deciles according to income, works out what each group pays in interest on what they buy (the price of almost all goods has an interest component), and then compares this with what that group receives in interest. Eight out of ten deciles pay more interest than they gain, so money is constantly being transferred from the poor to the rich. In interest terms, 80 per cent of the population are net losers. The difference in net wealth between the sectors shows up in the increasing concentration of wealth. Basically, the wealthy own a lot of land and have a lot of shares.<sup>2</sup>

Economists are trained to think in terms of net debt, but it is rather irrelevant. It is really no comfort to know that the net debt of society is zero when there is such an inequitable distribution of assets.

**So rich people are more likely to be net lenders and poor people more likely to be net borrowers, and lending at interest increases inequality. But it makes more sense to attack that inequality directly by taxing the rich to pay for decent services for the poor, and managing the economy to ensure that everyone who wants a paid job can get one. It doesn't make sense to solve the problems of inequality by attacking just one of the ways in which rich people make money (by lending money out at interest), when this is a legitimate service that borrowers are willing to pay for. Rich people will usually find new ways to get rich. Surely it is better to encourage them to share their wealth (through taxation) once they have made it.**

Taxing someone after they have got rich through a bad system is like shutting the stable door after the horse has bolted. The source of the problem is in the interest system, not the taxation system. It is far better to stop the continual transfer of money from the poor to the rich in the first place, as in the long run this prevents problems. Guernsey, for example, in the Channel Islands, has issued interest-free money since 1816, and as a result has low income tax rates, no goods and services tax and no capital gains tax.

Certainly there are other ways of getting rich, and human beings are perfectly capable of hard work in the quest for wealth. The problem is that the system itself can encourage corruption, greed and deception. The most obvious other way to get rich is to invest in property, especially in property where the land value is going to rise (see Chapter 20?).

**Interest is merely the financial reflection of the fact that capital investment can earn a real return. Building a factory will produce a flow of real output once the factory is built.**

Actually, under the interest regime banks are taking very little risk and businesses are shouldering the brunt of it. If a business can't service its loan, the loan is recalled and the assets of the company (or the house of the business owner, which is often used as collateral) will be sold at fire-sale prices. Under the interest regime, at least one borrower will be forced into debt, as described in Chapter 1 in the story of the ten families.

It is much fairer instead for the bank to share the risk and become a true partner in the business venture, if only temporarily. Under such a system, the bank would not get involved if it judged the business to be unviable. Moreover, if banks did get involved in this way, the bankers would have more of a stake in ensuring that the business succeeded.

**The 'extra' money to pay the interest on loans is generated through successful business ventures.**

This is a common belief, particularly held by people who never think about the design of money or the total money supply. Most people believe that there must be 'growth' to earn money to repay loans. This is the same as saying that we get money from economic activity, and that some of this money can be used to repay loans. This is not true. No economic activity has ever *created* any money. The extra money in the system is actually the extra debt incurred when stressed borrowers are forced into further debt.

If you re-read Chapter 1, you will remember that out of the ten families in the hypothetical example used, two could not find enough money to pay back their loans with interest. The money was just not in the system.

**Interest is necessary to dampen inflation.**

Inflation is actually inherent in the current system, and so it is better not to have an inflationary money system in the first place. A major reason that inflation is inherent in the system is that interest is charged on loans. Why else would the price of houses and bare land have been taken out of the Consumer Price Index if it weren't to mask inflation? Even without land inflation being accounted for, interest is inflationary. Almost all money originally came into being when someone went into debt to a bank. Each retailer or wholesaler has to use this money, so retailers, professionals and manufacturers build interest into the prices of their goods. For instance, the fact that your dentist has to service his or her student loan means that the price of dental treatments increases. The

landlord who charges you rent also has to pay his or her mortgage, and so your rent reflects this reality. *Everyone* pays interest when they buy goods.

As a result, the money supply just goes up and up – in New Zealand it increased by NZ\$50 billion in the 1990s. Put another way, NZ\$14 million of new money was created every day during that period. That is surely inflationary!

The assumption that a financial system *has* to be inflationary is therefore faulty. A stable money system can be said to exist when the money supply only increases by an amount equivalent to the rise in the value of goods and services traded. In such a situation there will be no need to use interest rates to control inflation.

**Interest is the price one has to pay for having goods and services now rather than waiting. People should pay for the privilege of getting something now rather than waiting until tomorrow. If borrowers are willing to pay this interest, then there is nothing wrong with it. Interest is the reward that investors or savers should receive when they defer consumption. Those who save should be rewarded.**

This is a very plausible and very common argument. It is based on the theory that consumption now is preferable to consumption in the future, and people can only be persuaded to give up consumption now by the promise of receiving more later.

There are two sorts of money that can be loaned – existing money or new money. If I lend you \$100 and charge you interest, this money is no longer available to me. This is the ‘piggy bank’ model of lending, where the lender no longer has access to the money, and is ‘lending’ in the normally used sense of the word. Similarly, banks lend out term deposits, where the money is no longer available to the depositor, and solicitors lend out money for mortgages.

The second type of lending, which is a use of the word that is unique to banks, is where a bank ‘lends’ \$100 into existence, and charges the ‘borrower’ interest on the money it has just created. This is the fraudulent kind, only accepted because it has been in existence for several centuries. I will now look at this argument in the case of public works loans and private loans.

### Public works

Let’s say an economist argues that a bank should receive interest from ‘lending’ money for the construction of a sewage scheme. The economist justifies this interest charge by saying that the interest is the price paid for getting something now rather than later. Here, the economist is implying that the bank owns the money it is lending. But this money is completely new money. The bank just creates it with the stroke of a pen or an e-blip. *Now, it is the people who endow money with value by accepting it.* They believe this bank loan is ‘money’ and, in their ignorance about its origins, they trust it. They also believe that the bank owned it, so the borrower has to pay it back. The success of the system depends on the public’s continuing ignorance, as loans might not otherwise be repaid. When they trust bank credit, people are effectively believing that *other* people



believe that credit to be valuable. Now that's a lucky break for the banks. They earn interest on the sewage scheme 'loan', and then justify it by saying that because the public is getting something sooner rather than later it should pay.

In an interest-free system, however, 'now' is the same as 'later' because money doesn't increase or decrease over time. In fact, when interest is negative (as when a charge is made for hoarding money) now is better than later for the spender, as later he or she will have to pay more. If a bridge has to be built and the labour and materials are available, all a community has to do is create the interest-free money. Money is only a unit of value, in the same way that the centimetre is a unit of length. To say you can't build a bridge because you haven't enough money is like saying you can't build a house because you haven't got enough centimetres. But communities, ignorant of this fact, still go cap in hand to the banks for a loan and end up paying for the bridge two or three times over.

In times of war, do governments argue that there is not enough money? No. The money is simply issued. At the start of the World War I, for example, Lloyd George issued what were called 'Bradburys'; munitions factories went into overdrive. The lesson from this is that money can be always be found for urgent national needs such as funding a war.

#### *Private loans*

When it comes to an individual needing money for a house, it is good for both society and the homeowner that he or she has that house now rather than later.

So to argue that interest is the price people pay to avoid deferring consumption

is not valid for either public works, for houses or for small businesses.

Remember also that it is easier for a rich person to defer consumption than a poor person. A family with three houses can more easily deprive itself of a fourth house than can a working family that is forced to spend its entire income on basics. Many economists have pointed out that only the upper income groups save. So the typical savings unit is not the family with an average income at all.

**Interest is needed to reward savers. If there was no interest, all retired people would suffer.**

It is not necessary to reward savers. Saving, like purchasing, is not a productive activity. The reward of spending is the goods one buys; the reward of savings is the savings itself. The best reward for savers is actually an inflation-free money system. Even in an economy with low inflation, inflation is surprisingly damaging. An inflation rate as low as 2 per cent per year, for example, erodes savings by 20 per cent in a decade. In a money system with zero inflation, by contrast, money saved would keep its value.

Saving for big-ticket items should be both feasible and pleasurable. But in our current system, with its credit cards and loyalty reward schemes for mortgages, people are encouraged to go into debt – rewards are given for spending now rather than later. The fact that savings rates have declined is largely a function of the activity of the banks, which effectively encourage debt.

**If interest rates were zero the demand would be too high. The price of property would balloon and this would lead to inflation. Look at what happened when the New Zealand government offered student loans at zero interest rates – the student debt mushroomed. Furthermore, students could borrow at zero interest and put their money into a term deposit, making on the deal.**

Zero interest rates cannot be introduced in isolation from other government policies designed to prevent speculation and control inflation. You need resource taxes, too. For example, if every landowner paid a ground rent to his or her local council for the privilege of having exclusive rights to occupy land, and if this ground rent was sufficiently high, there would be no speculation in land.

The value of certain leasehold properties in Auckland in the 1980s was lower than that of comparable freehold properties because of the annual leases (or land rentals) that had to be paid to the Anglican Church, and leases were renegotiated upwards from time to time. When there is a price attached to ownership, the price of leasehold property will always be lower than that for a comparable freehold property.

Looking at the example of the New Zealand student loan scheme, the situation only arose because zero interest rates were operating within a larger, interest-based system. However, zero-interest and negative-interest currencies can coexist with interest-bearing currencies when there are distinct and managed boundaries between the systems. We will see this more clearly in Part

2.

**If all interest rates were set zero everywhere, fewer rich people would be willing to lend their money out. That would mean fewer poor people would receive medical treatment, become educated, establish small businesses and escape poverty.**

This sounds so convincing, but in fact it's entirely wrong. The existence of interest means that money increases over time, thereby benefiting the hoarders. In effect, there is a reward for keeping money out of circulation. Instead, there should be a penalty for keeping money out of circulation. Lending out surplus money would then certainly be to the advantage of the lender. This will happen only if money is designed to resemble the goods it represents – in other words, something that 'rusts' with time. If a public authority imposed a hoarding tax upon those holding money, then excess money would be a liability.

In such a money system, money would constantly be transferred from those who have it to those who don't. What more desirable system could we ask for?

**Banks need to charge interest as a fee for their services. What is morally better (or worse) about charging a transaction fee rather than interest? Banks should be allowed to charge either, or both, and public policy should aim simply at encouraging competition (for example, through community banks) to make sure that the banks don't exploit their customers by charging either excessive fees or excessive interest rates through an imbalance of power.**

It is quite fair that banks should charge reasonable fees for their services – after all, they have to earn a living too. But to argue that they can charge interest on money they have created with the stroke of a pen is allowing them a privilege far beyond that given to any other citizen or corporate body. Fees exist in a different category from interest.

**Debt is a matter of personal choice.**

The rich can choose, but the poor, often struggling to pay for food and other necessities, have no choice. They are forced into debt. And most people can't buy a house without borrowing.

**This is the system that works. It is the one we have now. People trust bank credit.**

If people knew that banks create money and have no right either to claim ownership of their loans or to demand that they be paid back with interest, the money system would suffer a huge crisis of confidence. Where is the stability or sustainability of a system whose success depends on keeping the public and the politicians in the dark?

Yes, in a way the system works, in the same way that the horse and the sailing ship once worked for transporting goods. But things could be greatly improved through the introduction of new money systems that will complement and heal what has become a very unhealthy, unstable and inequitable system. This is what we shall be looking at in Part 2.

## Part 2: Healthy Money

### 7 The Concept and Functions of Money

*Those who create and issue money and credit direct the policies of government and hold in the hollow of their hands the destiny of the people.*

—  
Rt. Hon. Reginald McKenna, former UK Chancellor of the Exchequer and former  
Chairman of the Midland Bank<sup>1</sup>

Given that we live in a world where surfing the Internet is commonplace and governments sponsor conferences on ‘knowledge economies’, it is astonishing that bankers and economists should have kept so much of the public in ignorance about the origins of our money supply for so long. There is nothing wrong with creating money out of nothing, because that is what ‘creation’ is, so long as the amount created matches the level of economic activity taking place. What is wrong is that the privilege of doing this has been allowed to pass into private interests. Governments opposing privatisation should remember that this is the most basic privatisation of all – the privatisation of the right to create our means of exchange. Nor does it mean that governments should create interest-bearing money. Whoever creates money must do so on an interest-free basis.

Following on from this, the national currency should not be the only currency of a country, for if the state can create money, so can a local body or a group of citizens, as in a trade barter system. Governments, local authorities and small towns have created interest-

free money before, as we shall see in subsequent chapters.

This book is certainly not going to argue that all of a country's money supply should be created by central government, or even by a central bank. What we need instead are several centres of decision-making and a tightly woven network of checks and balances, so that the system operates as an intelligent, self-adjusting and self-organising whole. Moreover, we need money that is created for different purposes, by different agencies and with different designs. A centralised, scarce money system is an unhealthy system that predisposes people to behave in the competitive and grasping way we see today. Differently designed money systems, by definition, will induce people to behave in different ways.

It is time to acknowledge that there is a big problem with our sick money system and to start to supplement it with healthy systems that work for all. In Part 1, I looked at our sick system and the problems it has caused. In Part 2, I now move on to look at how these problems can be addressed through the implementation of healthy money systems. In doing so, I revisit the ideas behind what we want money to do, then look at alternative currencies that have been used across the world. I also discuss the concept of an organic model for globalisation, new currency theories, the policy implications of healthy money, and community banking. To conclude, I look to the future, with suggestions for how a new, healthy system can be established to heal the sick body of our world.

This chapter aims to explore our understanding of what money is and what we want it to do, in order to clarify how healthier systems should work.

It looks at different money systems that have been used in the past, starting with the gift economy, mutual barter and then money as an alternative to barter. It then discusses how money is bestowed with value, and explains that money is essentially an IOU that circulates around a group of traders until it arrives back at the original issuer, where it is cancelled. Money is thus something that appears when there is a debt and disappears when that debt is cancelled, a concept discussed further in Chapter 15, where I

classify currencies and summarise the lessons learnt from their use. In addition, this chapter looks at examples of other currencies from New Zealand's past, showing that the monopoly of the national currency is a relatively recent phenomenon.

## Informal Economies

### Gift Economies

To explain how and why currencies are created, I will start by looking at informal economies. Within a family, people provide goods and services for each other without using money. Depending on their level of relatedness, they give each other clothes and food, fix each others' cars, paint each others' houses and babysit for one another. Family members nurse, drive, garden, chop wood, build decks and cook for one another, and they offer life coaching, education and counselling, all without the exchange of money. The key here is that everyone benefits and no one uses up a cent of precious national currency. And no one keeps an account of these transactions – news just gets around of who has done what for whom, and the family instinctively knows who is in credit and who is in debit. Families also all have their own methods of dealing with freeloading members.

Up until the 1950s in New Zealand, a similar informal economy existed in rural communities whereby people lent each other equipment and helped each other with bringing in crops and general farm jobs, all for mutual benefit. And again, although the community kept no formal record or made any formal rules, word soon got around as to who was in credit and who was in debit.

Successful informal economies were also common among many societies in pre-colonial times, including the Maori. The absence of a formal economy in such societies was possible because populations were small, tribal and family ties were strong, and there were harshly imposed sanctions for those who broke the rules. Although these societies had a gift economy, their systems were actually more sophisticated than they appear.



In pre-colonial times, Maori tribal society had no formal currency and no word for money (the word 'moni' only came into use once Europeans arrived and introduced the concept). Land was held communally, inland tribes traded with tribes living near the sea and vice versa, and the basis for intertribal communication was the gift economy. From the earliest contact with Europeans, New Zealand Maori tribes also had agreements with other countries to engage in barter.

As historian Bill Dacker says, the Maori gift society worked because 'the receiver of a gift placed great importance on giving in return a gift of equivalent or greater value'.<sup>2</sup> Further, it acted like a society with formal money because all gifts had to be repaid or the punishment was severe. According to Raymond Firth in his book *The Economics of the New Zealand Maori*, if a person failed to repay a gift there were three possible sanctions, which added up to the Christian equivalent of excommunication: 'First, the anxiety lest he should lose all chance of exchange in the future and thereby be deprived of valuable economic benefits, then the fear lest his reputation should suffer by report of his failure to meet his obligations, a serious matter in a Maori community, and lastly the fear of witchcraft.'<sup>3</sup>

On Niue the gift economy still exists in some social contexts. For example, when a boy reaches puberty he goes through a hair-cutting ceremony, a big social occasion to which all the villagers bring a gift. Someone in the boy's family keeps a strict record of all the gifts of pigs, chickens and money. Then, at a suitable time in the future, that family must repay the donor family with a gift of equal value. Nothing is forgotten, and sanctions will apply to those who renege on their obligations.

Thus in a gift society, money issued in the form of a gift is really an IOU. When the gift is exchanged for a gift of equal or better value, the money circle is complete and the IOU is cancelled. The sanctions against those who fail to repay the gift are powerful, thereby ensuring the success of the system.

## Informal Barter

The next level up the scale is informal bilateral barter. By definition, barter is swapping one thing for another. Mutual barter is a bilateral exchange, such as the swapping of gifts between two people. The total sum of the transaction is zero and the 'money' exists for only a fraction of time. At the end of the transaction, neither party owes the other anything. In rural New Zealand towns where a large proportion of the population is dependent on benefits, gib-stopping may be exchanged for painting vans and reputting windows, food and a bed may be swapped for work (as in the case of Wwoofers, or 'willing workers on organic farms'), and cars are frequently traded.

Barter does have one obvious weakness, however, as economist John Stuart Mill stated: 'A tailor who has nothing but coats might starve before he could find any person having bread to sell who wanted a coat; besides he would not want as much bread at a time as would be worth a coat, and the coats could not be divided.'<sup>4</sup>

At the next level of formalisation above informal bilateral barter the deals can become illegal, because the taxman watches them. This is the black economy, the world of 'cash jobs' where people work for cash but don't enter it into their books in order to avoid paying tax. Black economies tend to be common in small towns where there is a lack of sufficient national currency in circulation and an income tax regime is in place. Annabelle Young, list MP for National, raised the topic in Parliament in 2001, and claimed that New Zealand's black economy comprises as much as 8.8 per cent of the national economy.<sup>5</sup>

## Formal Economies

The gift economy will work only in small populations, and barter is awkward, so money is the ideal medium for overcoming these limitations.

In Maori tribes, the gift society'

Money is more convenient than barter because it can be used to buy anything, not just the goods within the two-way barter circle. Its invention has led to more varied and sophisticated trade, and some have even gone so far as to say it has aided the development of civilisation.

E.C. Riegel, writing in the 1940s, analysed the roles of money and barter still further. He said: 'The sole purpose of money is to split barter into two parts so that the seller is free to find his source of supply later and elsewhere. Money is issued by a buyer in the act of a purchase, so the source of money is the trader and the backing of money is the buyer's pledge to accept it for equivalent value in free exchange'. He said that simple barter, which is a bilateral transaction where both traders receive immediate satisfaction, gives way to money exchange, which is a unilateral transaction.<sup>6</sup>

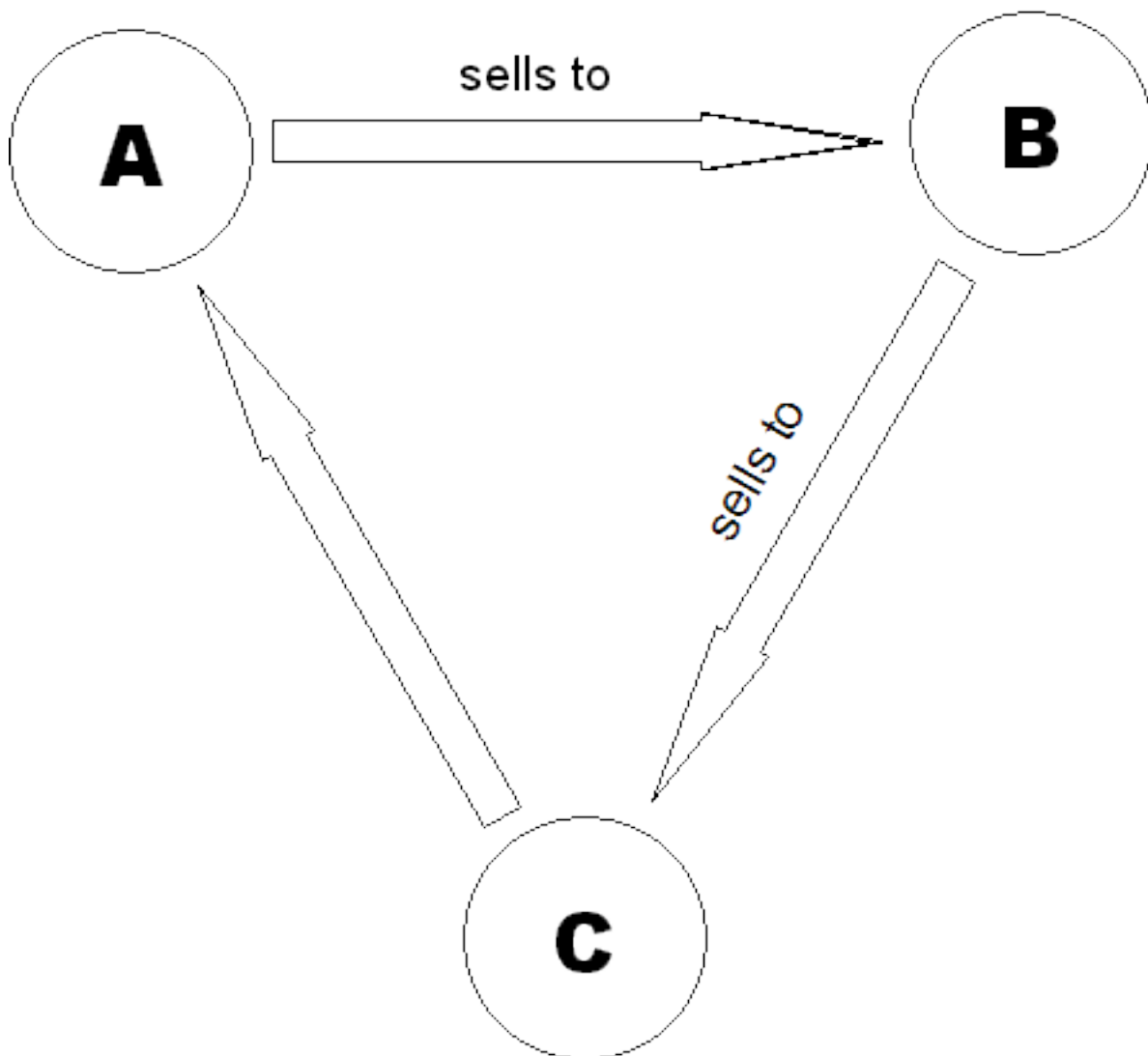
In a formal economy, where money is used, it is created in three ways: by commercial banks (discussed in Chapter 1); by governments (also covered in Chapter 1); and by groups of citizens. It is to the latter that I look in Part 2 of this book.

### Definition of Money

Most economics textbooks define money by its function, but I prefer to define it by what it

is: money is something a community agrees to use as a means of payment for goods and services. The 'something' exists only if a community authority declares it to be money. It may be a note, a coin or just an e-blip. It exists only by convention and it ceases to be money when it is no longer accepted. Its value is therefore derived from the *agreement* between people in a community at a certain time and place to accept it. *Money is given value by those who receive it*, not by those who print it and distribute it, or even by those who spend it into existence. Thus it is not the Reserve Bank that gives value to our NZ\$100 notes, but New Zealanders themselves. Bernard Lietaer goes still further and calls money an agreement itself. He says, 'Money is an agreement, within a community, to use something as a means of payment.'<sup>7</sup>

# Three Way Barter



A simplified version of a mutual credit exchange.

## What Gives Money its Value?

To help illustrate the principle of honouring pledges, I will go back to the idea of money as a commodity-backed receipt. If in a community receipts are issued for gold, corn or other valuable items, and if these receipts then circulate as they are more convenient to use than the goods themselves, then the notes perform the task of money, and each note or token is backed by a promise to supply a certain amount of gold or corn. The token or note is a promise by the issuer (the early goldsmith discussed in Chapter 1, or, say, a bookstore that issues book vouchers) that a certain amount of a commodity will be paid out when the holder wishes to redeem it.

The other type of money is fiat money, which is money that has been issued by an authority (fiat means 'an authorisation' or 'a decree'). This time there is no commodity backing the note; instead, the paper is simply a promise that the issuer will accept it for payment at some time in the future. This type of money is *declared to be money* by the authority, although it is not redeemable for any one particular commodity, and the community has accepted this decree. What is miraculous about all this is that the paper is given value by the community – thus a piece of paper that is actually worth just a few cents is *agreed to be worth* much more.

## How is Money Issued?

Whatever the money system used, someone has to print the notes and distribute them. In a mutual barter system a note is issued by the person buying goods or services; this person then goes into debt to the system and a debit is recorded against his or her name. In the case of a government spending money into existence, it issues taxation vouchers that it ultimately accepts or redeems for tax. In the case of bank debt, money is issued as a mortgage and cancelled when it is paid back.

## Why is Money Trusted?

As we have seen, money is something that has been endowed with value by the agreement of a community, and in order to stay in use it must continue to be endowed with that value. A Martian coming to Earth might not understand that when people exchange red paper notes these represent a different amount than blue notes; it is simply the agreement of the community that endows each note with its relative value, and money could not exist without the community. But money is not real wealth; it is only a promise to redeem it for real goods and services. It is therefore a credit instrument, or an IOU. Possession of money gives the possessor power to acquire food, clothing or whatever is desired.

At a fundraising function to launch the Toronto dollar scheme in June 1999 (see Chapter 10), author Margaret Atwood eloquently described the symbolism and limitations of money:

*Art has to do with symbolism – the human tendency to make one thing stand for another – and money is the most deeply symbolic thing there is. Money as such is, as Oscar Wilde said, perfectly useless. You can't eat it, drink it, shelter yourself from the cold with it, wear it, or make love with it unless deeply disturbed. In and of itself, it has no emotions, no mind, and no conscience. It doesn't put out flowers or have children, and it makes a lousy pet. It has meaning only when it circulates, and is exchanged for other things; and money doesn't do that for itself. People do that, using money as a symbolic token.<sup>8</sup>*

But the process of endowing a symbolic token with value is always rather fragile. When we

accept money as payment, we unconsciously or consciously believe it is going to be useful in the future. That is, we believe that other people will believe it to be valuable in the future. What we have, as Bernard Lietaer points out, is not just a belief but a *belief about a belief*.<sup>9</sup> Since nobody can control what others believe, the value of the money is vulnerable to gossip and rumour. Given a choice of accepting Chad francs or the equivalent in American dollars, most people will probably opt for US dollars because it is *generally believed* that the US dollar is almost certain to be valuable in the future and it is more widely accepted than the other currency. Such a belief in money can disappear overnight, and communities that endow bits of paper with value can then snatch them back just as easily.

This process of trusting money is not one that is fully conscious, and sometimes that is just as well. If we had to think about whether the supermarket trusted the bank to honour our money every time we came to pay the cashier, for example, life would be burdensome indeed.

## Forms of Currency

From earliest times, communities have given various items value as money. These have ranged from mats and bark-cloth in Samoa to pigs in the New Hebrides, shells and teeth in the Solomon Islands, edible rats in the eastern Pacific, tallysticks (long notched sticks that were divided in half and used for the payment of taxes) during the reign of Henry I in England, and hides in Russia. *New Internationalist* magazine says that the earliest known record of the use of money is around 2400BC in Mesopotamia and Egypt.<sup>[5]<sup>10</sup></sup> The first people to have started making coins from precious metals appear to have been the Lydians in the seventh century BC. Gold, silver, copper and brass became the commonest currency, used by the Chinese, Greeks, Romans, Arabs and Indians, and paper money came into use



in China as early as the Sung dynasty (AD960–1279).

Today, as discussed in Chapter 1, the majority of money in circulation has been created by banks as debt, loaned into existence. In New Zealand, just 2 per cent of the money supply is true legal tender, healthy interest-free money that is backed by gold reserves.<sup>11</sup> The remaining 98 per cent has been created by banks as debt, on the Notes and coins are officially decreed by Government to be legal tender but ninety-eight per cent of our money (loaned into existence by banks) is not. Most of society is unaware of the agreement our government has with the banking system to allow them to create our money. Banks create money as debt, and the understanding that people will pay it back and the debt will then be cancelled. People with loans issue bank cheques that are trusted by others, and merchants continually accept electronic transfers as payment without ever knowing that most of it is not legal tender.

In the latter part of the 20th century, however, people began once again to realise that small communities can create their own money and declare it to be an accepted means of exchange. As a result, green dollar and trade barter communities are now operating all over the world. For a short time at the turn of the 21st century, Chatham Islanders eagerly accepted a private company's 'tourist note' as valuable because they loved its design and it gave them a sense of belonging to a unique island community. People in Ithaca, New York, have accepted notes called HOURS since 1991, while millions in Argentina between 1995 and 2002 accepted créditos, Guardiagrele in Italy has endowed the simec since 2000, and in Guernsey people have accepted their island currency for two centuries. These user-issued currencies are looked at in more detail in Chapter 10.

goes still further and calls money an agreement itself. He says,

### The Functions of Money

So far I have defined money by its primary function, namely as a means of exchange. From this is derived another function – a standard of value. As soon as we put a number value on goods and services, we can more easily compare their relative values. Money therefore provides us with a common denominator or yardstick. As the ancient Greek philosopher Aristotle wrote, 'all commodities exchanged must be able to be compared in some way. It is to meet this requirement that men have introduced money; money constitutes in a manner, a middle term.'<sup>12</sup> Thus, while a second-hand car may be exchanged for 2,000 loaves of bread or 10,000 lattes, the only way of quoting the price of the car, bread or latte is in terms of the established currency.

We now come to a discussion of the functions of money according to its relationship to time.

In addition to using money as a means of exchange and as a standard of value, we also use it today as a store of value, which we accumulate to pay for big-ticket items in the future. Money holds its value over time only if there is no inflation, so a zero- or low-inflation environment is required for saving to be worthwhile. When prices are stable, money can serve as a useful medium of exchange over time, but when inflation is high, money is a poor store of value, and people tend to borrow instead. Despite the best efforts of the Reserve Bank of New Zealand to control inflation, it continually erodes the value of the legal tender, such that between 1950 and 2000 the New Zealand dollar dropped in value by 96 cents.<sup>13</sup> Inflation was particularly high during the eighties 1980s.

Money also has some secondary functions that are related to its use as a commodity

to be speculated on, and as a tool of empire to impose the monetary system of the conqueror on a vanquished people. But the primary function of money – as a means of exchange – has no particular moral connotations. Its function is related directly to its definition – something a community agrees to use as a means of payment.

Of course, to make it work, money must have other practical attributes. As economist Wolfgang Rosenberg says, 'Apart from general acceptability, a good medium of exchange ... must be convenient in handling, easily divisible, homogeneous, difficult to counterfeit and of a durable nature.'<sup>14</sup>

### New Zealand's History of Money Creation

Before I move on to the next chapter, which suggests an alternative model of globalisation, I will look at the history of money creation in New Zealand. As we will see, our national currency is a relatively recent phenomenon, and the existence of other forms of currency has set a precedent for the possibility of alternatives in the future.

As in most other countries, there has been a continuing battle between politicians and the commercial banks in New Zealand for the right to issue the money supply. Although politicians have raised the matter in almost every decade since European colonisation, the periods where the government acquired the sole right to issue money have been brief. Let us look at the overall history first.

### A Brief Economic History of New Zealand

As discussed earlier in this chapter, in pre-European days Maori had a gift society, which saw bartering between iwi. Because property was held communally, this meant that barter within iwi was minimal. Maori therefore had no word for money, although there was a reciprocal hospitality system, and a koha, or gift, was commonly given by visitors. Severe social and economic sanctions were imposed on those who did not return favours.

In early colonial days, whalers and traders brought British, French, Portuguese,

Spanish and Dutch coins from overseas, and these circulated in the various towns. Between 1840 and 1861 there was a period of legal uncertainty and a shortage of coins, which gave rise to the issuing of 'FitzRoy's debentures' and the formation of Governor Grey's Colonial Bank of Issue soon after (see below).

From 1861 to 1893, in response to the shortage of coins, tradesmen's tokens were issued by the bigger stores of every town. These are described in more detail in Chapter 13.

From 1893 to 1933 various banknotes were in circulation, as each commercial bank issued its own notes in exchange for gold. However, these notes were of all different sizes and colours, and as not every bank accepted all the others' notes there was a need for standardisation. In 1934, Gordon Coates' government established the Reserve Bank of New Zealand, and from then on the practice of banks issuing notes ceased; all notes thereafter were issued by the Reserve Bank as a state monopoly.<sup>15</sup>

Since the European colonisation of New Zealand, there have been three brief periods in which money creation was democratised, as I explain below.

### FitzRoy's Debentures

In 1844, Governor Robert FitzRoy issued £15,000 worth of debentures, or promissory notes, which became known as 'FitzRoy's debentures', a currency used to pay public servants. The currency, however, was unsuccessful. The notes were easily forged, they were not backed by gold and some were unsigned, and many citizens didn't trust them for these reasons and because they were aware that FitzRoy had not obtained permission from England to issue them.<sup>16</sup>

### The Colonial Bank of Issue

The second official currency was only slightly more successful. FitzRoy was replaced by Governor Grey, who arrived in 1847 and established the Colonial Bank of Issue, or CBI. There was no Legislative Assembly in New Zealand until 1852, and Grey exploited the slowness of communications with the Colonial Office to issue an interest-free currency

without debate. The CBI printed notes from 1850 to 1856, and Grey made the issuing of banknotes from trading banks illegal. This adversely affected the only commercial bank in the country, the Australian-based Union Bank, which had opened offices in Wellington in 1840.

The Union Bank didn't take this lying down, and sabotaged the government's legislation by accepting notes from the Colonial Bank of Issue but *not* paying them out. This increased the friction between the Union Bank and the government.

CBI notes could be issued only if they were fully backed by gold and silver coin deposited in the issuing bank. The British Treasury had insisted that two-thirds of the gold backing the currency be invested in British securities paying only 3.5 per cent. But at the same time, the government was borrowing at a rate of 8 per cent. Another factor leading to the demise of the CBI was that only two branches were ever established, one in Wellington and one in Auckland. Settlers from Canterbury and Otago had to travel by boat to Wellington to redeem their notes for gold – clearly an arduous task.

James Macandrew, who was MP for Otago and who had private banking interests, began a campaign to kill the CBI. By 1854, a committee had been set up by the House of Representatives to report on 'whether it be desirable to maintain the present Bank of Issue',<sup>17</sup> and by 1856 Macandrew had successfully introduced legislation to abolish the bank. The way was now clear for private enterprise to take over the issue of paper money in New Zealand, and during the 1860s many Acts were passed, one for each commercial bank, allowing them to issue banknotes.

The question of having a bank of issue was raised successively in the Legislative Council or House of Representatives ten times in the next 50 years.

#### Nationalisation of the Reserve Bank

In 1935, the Labour Party won the general election, led by Micky Savage. The party had been strongly influenced by the ideas of British economist Major C. H. Douglas, who

claimed that the UK's financial system made the economy completely dependent on continual new investment and growth.<sup>18</sup>

Advertisements put out by the Labour Party during the election campaign urged voters to follow the lead of Canada, where the then Prime Minister W. L. MacKenzie King had said:

*Canada is faced with a great battle between money power and the power of the people. Once a nation parts with the control of its currency and credit, it matters not who makes the Nation's laws. Usury once in control will wreck any nation ... Until the control of currency and credit is restored to the Government and reorganised as its most conspicuous and sacred responsibility, all talk of sovereignty of the people is idle and futile.*<sup>19</sup>

Perusal of advertisements in *The Dominion* and *The Press* in the three weeks leading up to the 27 November election in 1935 shows that the National Party and the Associated Banks of New Zealand were warning the public of the dire consequences of government taking over the Reserve Bank. They said people's savings, security and life insurance policies would be affected,<sup>20</sup> and warned of bank closures and rampant inflation, as had happened in Germany in the 1920s.<sup>21</sup> The then Prime Minister, George Forbes of the United Party, warned that 'manipulation of the currency and credit of New Zealand would lead to grave financial disorder'.<sup>22</sup>

One of the first actions of the government was to nationalise the Reserve Bank and use Reserve Bank credit at 1.25 per cent for state housing and public works. This, plus other reforms and factors, initiated a remarkable economic recovery. According to the Labour Party's A-Z of policy website:

*For the first time, access to health care became affordable for all. The state provided low-cost housing to those in need. A wide-ranging social welfare system gave security to older people, the sick, and*

*those without work. Secondary and tertiary education became accessible to all. The 40-hour working week was introduced and it became easier for unions to negotiate on behalf of workers.*<sup>23</sup>

Unfortunately, however, the success was to be short-lived.

Micky Savage died in 1940, leaving Peter Fraser as the leader of the Labour Party and Walter Nash with the key portfolio of finance. Nash was no monetary reformer, and hence the Labour Party lost its enthusiasm for the democratisation of the creation of money. However, out of it was born the Social Credit Political League, with its promise to 'carry on where Micky Savage left off'.<sup>24</sup> The party stood a full slate of candidates in 1954 and gained 12 per cent on election night.

Shortly afterwards, S. G. Holland, Minister of Finance, set up a Royal Commission on Banking and Credit, primarily to discredit the new political movement towards monetary reform. The commission eventually ruled that banks created credit but that it was not illegal, as contended by witness Henry Kelliher. Its report said, 'The explanation of the creation of credit by banks has been a common feature of textbooks on economics for many years.'<sup>25</sup> The commission accepted a statement from the Solicitor-General, who said: 'I do not think there can be any doubt that the "creation of credit" is a legitimate function of a trading bank which has been duly authorised to carry on the business of banking in New Zealand and that in performing this function such a bank is in not in any way invading or usurping the prerogative of the Crown.'<sup>26</sup>

The Solicitor-General cited Lord Watson's judgment (in *Tennant vs Union Bank of Canada* 1894), and a law journal article, which quoted from a book on banking that claimed that early Italian banks had 'not only been banks of deposit but banks of issue'.<sup>27</sup> Lord Watson cited the Italian bankers, possibly the first moneychangers to have cheated for their own profit, as a reason to support the ongoing practice. The Solicitor-General thus effectively continued to defend centuries of fraud and wash his hands of any moral judgement.

Today, the Reserve Bank retains the power to create interest-free credit. Even now, no statutory restrictions exist dictating who the Reserve Bank can lend to, or the terms on which it can lend. Nowadays, politicians can't make this decision independently, but a sympathetic Minister of Finance could influence the governor of the Reserve Bank or change the legislation. Michael Reddell, Chief Manager, Financial Markets Department of the Reserve Bank of New Zealand, has said, 'Note, however, that under the current legislation the government, say, could not direct us to lend to anyone (including the government itself), and nor could it specify the terms at which we should lend. That would be entirely a matter for the Governor.'<sup>28</sup> But, of course, the government of the day appoints the governor of the Reserve Bank.

And no local authority or community can issue its own notes either. Section 25 of the Reserve Bank Act 1989 says, 'The Bank shall have the sole right to issue bank notes and coins in New Zealand.'

After reaching a peak in popularity in 1981, the Social Credit Political Party spent many years in the political wilderness. It has, however, started to gain in popularity again, leading to hopes of a political reform of New Zealand's unhealthy economic system in the future. Until this happens, communities can work towards creating viable complementary currencies at the local level, which can work alongside, and in harmony with, the established national currency.



## Doing Globalisation Better: An Organic Model

*We must become more conscious participants in the process of globalization, to avoid letting a handful of powerful players lead us all to doom.*

– Elisabet Sahtouris<sup>1</sup>

It is not much good having healthy money if we employ an organisational and governance model that benefits the few and ignores the needs of the many. This chapter develops the theme that a new model of organisation is just as essential as the creation of interest-free money and the democratisation of land and other resources. It argues for a model of ‘economies nested within economies’ and shows that our economic system should mimic nature in its patterns. The suggested model recognises the importance of the national and international economies, yet also argues that all parts are as important as the whole and that there should be many centres of decision-making.

We need to think of economies as organic wholes. It is the very separation of things into parts when they are essentially inseparable that is causing many of today’s problems, and economics is no exception to this. Indeed, small-scale economies are just as important as large-scale economies. This way of treating parts as wholes has been called a ‘holarchy’, and this chapter looks at why such systems are more appropriate than hierarchies. It argues that we should reshape globalisation along nature’s model. Next, it checks both the global and New Zealand’s economic systems against the ecological principles of organisation for

living systems. Finally, it discusses what sustainable economies would look like using this organic model.

### Good Aspects of Globalisation

Globalisation is not all bad. It has brought us rapid world travel, increased cultural exchange, the spreading of ideas and knowledge, and a new awareness of the oneness of the planet. We have BBC World, CNN, satellite-relayed sport, families communicating across the globe by email, Internet shopping, satellite communications, and telephone, postal and air travel networks. We cooperate to create a globalised postal service, Interpol, air-traffic control and telephone communication. For many decades, the United Nations has encouraged internationalism by operating global programmes for peace, human rights, health and economic development.

No one who watched television during the millennium celebrations could have failed to be moved by the fact that, despite our diversity and different time zones, we came together as one human species, united in hope and celebration. In New Zealand, citizens posted their dreams on the Internet, and many of these messages were read out on television. Common among the sentiments were wishes for peace, happiness, environmental sustainability and love. So, in our knee-jerk reaction against 'globalisation' we certainly don't have to abandon internationalism and all the good things it brings.

Hazel Henderson, in *Beyond Globalization*, says that the problems and issues we now face – for example, climate change, water pollution, desertification and loss of biodiversity – have become global, beyond the reach of national

governments.<sup>2</sup> She says that a new identity has started to emerge – namely the global citizen – even before global government structures have been put in place. Using the positive aspects of globalisation, the global citizen can transmit and access innovative ideas at web speed, from greener technologies and local sustainability to home-grown economies, community-supported agriculture, local currencies and barter systems, microcredit schemes and new indicators beyond GDP.

The idea of the global citizen is apparent in the subtitle of futurist John Naisbitt's book *The Global Paradox* spells out a paradox — *The Bigger the World Economy, the More Powerful its Smallest Players*.<sup>3</sup> This also reminds me of an African proverb one of my friends has at the end of his email signature: 'If you think you're too small to make a difference, try sleeping in a closed room with a mosquito.'

Essentially, this means that despite the advance of corporate globalisation, each individual on the planet still has power. Neither a big government nor a powerful coterie of international bankers or landowners can reverse people's decisions to leave an unsatisfying job, spend more time with their family, change their eating habits, live nearer their work or simplify their lifestyle. And as the growing protest against corporate globalisation has shown, people power can still be effective. This section of the book will show that one of the most effective ways people can fight against globalisation and unhealthy money systems at an individual or community level is by reasserting their rights to issue and use their own local money and own their own banks. As we shall see below, economies at the local level are as important as those at national and international levels.

Holons and Holarchies

If our species is to survive, a new look at sustainable development is called for. What we need is a healthy economy that follows the principles of ecology.

Currently, we use a Newtonian model to describe the economy, which states that it acts like a machine responding predictably to certain stimuli. But economies comprise human beings acting and choosing within human communities, and, as economist Paul Ormerod has observed, there is nothing mechanical about their economic choices.<sup>4</sup> So instead of our Newtonian model, I suggest we use a model based on the structure of the human body.

A healthy human body is made up of generally healthy cells and healthy organs, all coordinated and working together, combined with an immune system, a circulation system, a nervous system and a few other such networks. Each individual cell is whole and complete as a system, intelligently making its own decisions as to what it filters in and out through its cell wall, and how it adjusts its production and distribution needs. Since all organs and systems must function as one unit – the body – no part can become sick without it affecting the whole.

Thus we come to see that each part of the body is equally important. Unlike a mechanical model, the organic system is not a hierarchy with its superiority of one level of organisation over another. The individual cell is not inferior to the lung or the body – it is just at a different level of organisation. Each living part is whole in itself and possesses something non-material and irreducible: a pattern of organisation. Arthur Koestler invented a term for such a system – a ‘holarchy’.<sup>5</sup> He called each whole-part a ‘holon’, which A holon he defined as a self-contained system, each of which relates to the others in a holarchy. Each holon is embedded in another holon, as Russian nested dolls sit within one another. There must be

continual negotiation between the holons so that all can win and each can retain its own integrity. Since each holon is both a whole and a part, it can be called a 'whole-part'.

Returning to the human body analogy, when a cell is sick other cells become aware of its distress and send the appropriate oxygen, hormones, chemicals or antibodies in its direction. A body that is always seeking balance needs an intricate and active network of communication. News of an imbalance soon spreads through the network, and when the message returns to the source along feedback loops, adjustments can be made. It is information that allows the whole to retain its integrity, and there are many decision-making centres providing network governance.

In his book *The Web of Life*, physicist Fritjof Capra explains that integrated wholes can never be understood by analysis, as the nature of the whole is always different from the sum of its parts.<sup>6</sup> Unlike what happens in the mechanical model, the whole determines the parts, not vice versa. Capra says that to understand self-organisation we first need to understand the importance of pattern. When a living organism is dissected, its patterns are destroyed; by disrupting the patterns of relationships within the whole, you destroy its wholeness.

With corporate globalisation or economic imperialism, the delicate web of social relations becomes severely damaged. As Coca-Cola and McDonald's arrive in the remote villages of Africa or Bhutan, a monoculture is developed that disrupts social and cultural patterns. Much the same happens during colonisation – when the coloniser's monetocracy is imposed on a small economy

with its own currencies, the patterns holding that culture together are seriously damaged.

### Hallmarks of Simple Holarchies

A simple example of a holarchy is a couple. Each person is whole and complete, and so is the couple; there are therefore three holons in this two-level holarchy.

The individuals are embedded in the partnership, but the partnership is not superior to either of the individuals. The couple will thrive if the self-interest of each of the three holons is negotiated with the other two holons.

Expanding on this slightly, let us look at the workings of a team in order to discover some essential characteristics of a holarchy. What makes a healthy team?

### **Boundaries**

It must be clear who is in the team and who is not; there are clear boundaries for membership, rules for joining and rules for leaving. The borders are managed to protect the team's integrity and to preserve the team's unique pattern of relationships.

### **Cooperation supplements competition**

Members, while competing with each other for recognition and success, also cover for each other in sickness or absence. They pull each other up when they fall over or get downhearted, and they cooperate so that each can take time out for refreshment without affecting the functioning of the team. The strengths of experienced team members can enliven the less experienced. Although team members are in healthy competition with one another for excellence and satisfaction, gossip and blame are absent and trust and possibility are present.

**Diversity and coordination of parts**

Well-functioning teams employ the special strengths of each member for the benefits of the whole. By using the specialist skills of each member, their team operates together in what seems like an effortless, well-coordinated dance.

**Continuous self-organisation and response to stress or change**

Even a great team seldom operates with all parts functioning optimally. There is usually some imbalance where growth and change can occur – that is what makes a team such a dynamic entity. Each member of the team needs to learn to be a leader and a follower. When something is not working well, a good team will change and adapt quickly, always maintaining continuous communication. It therefore becomes a self-organising system. While each team can and should display opposite traits of selfishness and altruism, cruelty and compassion, suspicion and trust, the feedback loops and constant readjustments keep the system in sufficient tension to be balanced and self-organising.

**Awareness of the whole**

Teams work best when each member has a deep awareness of the whole and a commitment to its integrity. No matter who is the designated leader, each member is accountable for the team's results. To retain integrity, the group must impose sanctions. If one member wrecks the group's reputation, breaks the rules or causes unbearable friction, the team soon acts to bring that member into line. Members are rigorous with each other, holding one another to account so that the team can perform at its best.

**Economy of effort, recycling of resources**

While it is possible for each team member to take time out to be sick, lonely or rebellious, the overall energy of the team is continuously created, regenerated and recycled. Materials are also shared and recycled.

### **Holarchy not hierarchy**

In a well-functioning team, there is no hierarchy, just a variety of functions. There is also no conflict between the development of the individual and the performance of the team. A band, netball team or football team needs all of its members to play at their best, and for cooperation and competition to coexist happily. Each member has a personal stake in how the other members are functioning.

### **An Organic Model of a Healthy Economy**

Let's now extend our analysis of a team to thinking of an economy as a living system. In a healthy global economy, there would be no essential conflict between what is good for the local region and what is good for the planet. And in a national economy, its parts, while competing for attention by demonstrating their uniqueness, should all cooperate and help each other function at optimal capacity.

The organic model also demonstrates the importance of managed borders. In a human cell, if the cell membrane was removed the contents of the cell would leak out, pathogens would enter, and the cell would become misshapen and the body diseased. Just as a cell needs a semi-permeable membrane, so a healthy economy needs a similar feature around it to provide protection. While goods, services, energy, money and culture are all allowed to circulate freely within the economy, the borders should be managed to allow vital materials, energy and



information to pass through. So, if we accept this model we will have to decide how to regulate the flow of capital, goods and people through that semi-permeable membrane.

In an organic, holarchic model, each economy – supranational, national, regional, local and neighbourhood – would be a complete unit. Each whole-part would have its own unique patterns of circulation of goods, services and information. To retain integrity, each would have its own currency while also using the national and international currencies for trade within each larger unit. Each would have its boundaries and manage them. Each economy would be uniquely adapted to the place where it was situated, and it would generate virtually no waste. As in an ecosystem, supply lines would be short – for instance, New Zealand would produce its own mineral water rather than import it from Italy or France. Each user of a resource would be placed near the supply of that resource.

In their book *Natural Capitalism – The Next Industrial Revolution*, Paul Hawken, Amory Lovins and L. Hunter Lovins say they believe an economic system should mimic nature itself, where the waste of one species becomes the food for another, and where disruptions and imbalances occur but are self-correcting and self-restoring.<sup>7</sup> The authors estimate that more than 90 per cent of the global flow of physical materials used in industrial processes – some 500 billion tonnes a year – ends up as waste. Here, waste includes everything from traffic jams to irreparable VCRs, ‘disposable’ nappies, radioactive waste and vagrant chemicals, as well as the social waste of homelessness, crime, drug

addiction, chronic illness and ignoring the experience and wisdom of the elderly. Instead, there should be zero waste and zero destruction.

With an organic model, a rich diversity of economic patterns is both possible and desirable. Each economy would have its distinctive characteristics and each would function efficiently with minimal waste. A continual process of adjustment and development would occur, so that if one part was sick the others would know immediately and would respond appropriately.

So a healthy economic model is not just a matter of the full utilisation of the parts; it is also about each region having a commitment to the whole country, and of efficiency of resource use within each region. While it is inappropriate to argue for the complete self-sufficiency of a subnational or national economy, a greater level of self-reliance is in everyone's interest. For example, it makes no nutritional sense for vegetables or fruit to be picked when unripe and transported long distances, and equally it is more efficient to use raw materials close at hand for industry rather than import them from thousands of miles away. Just as in the example of a couple or team we looked at earlier, each region in a holarchic system should behave individually yet at the same time act with others for the good of all. Therefore, instead of importing certain manufactured items or foods, they could be made locally or grown locally. This would then reduce wasteful transport and endow communities with a stronger sense of place.

### Features of a Healthy Holarchic System

Aside from the features mentioned above, a holarchic system has many other characteristics. Biologist Elisabet Sahtouris distilled these into no less than 15

operating principles in her website article 'The Biology of Globalization',<sup>8</sup> and David Korten, who had read and spoken to both Sahtouris and microbiologist Mae-wan Ho, refined them into just six in his book *The Post-corporate World*:

1. *Life favours self-organisation;*
2. *Life is frugal and sharing;*
3. *Life depends on inclusive, place-based communities;*
4. *Life rewards cooperation;*
5. *Life depends on boundaries;*
6. *Life thrives on diversity, creative individuality and shared learning.*<sup>9</sup>

Korten also says that we can re-create our economic institutions to the service of life:

1. *Human economies can and should function as self-organising systems in which each individual, family, community, or nation is able to exercise its own freedom of choice mindful of the needs of the whole, and no entity has the power to dominate any other.*
2. *Human economies can and should be organised to contribute to life's abundance through frugal use, equitable sharing, and continuous recycling of the available energy and resources to meet the material, social, and spiritual needs of all their members.*
3. *Human economies can and should be built around inclusive, place-based communities, adapted to the conditions of their physical space, adept at the collection and conservation of energy and the recycling of materials to function as largely self-reliant entities, and organised to provide each of their members with a sustainable means of livelihood.*

*4. Human economies can and should acknowledge and reward cooperative behaviour toward the efficient use of energy and resources in providing adequate livelihoods for all and enhancing the productive capacities of a shared pool of living capital.*

*5. Human economies can and should have managed borders at each level of organisation, from household and community to region and nation, which allow them to maintain the integrity, coherence, and resource-efficiency of their internal productive process and to protect themselves from predators and pathogens while cooperating to enhance the potentials of the larger whole.*

*6. Human economies can and should nurture cultural, social and economic creativity and diversity and share information within and between place-based economies. These conditions are the keys to system resilience and creative transcendence.<sup>10</sup>*

Shann Turnbull, a Sydney-based businessman, academic and writer specialising in the democratisation of corporations and land, stresses that nature has bred into social animals contrary characteristics such chaos/order, selfishness/altruism and competitiveness/cooperation. 'By doing so nature creates the most informational efficient way for social animals to become self-governing as they have some checks and balances already built into their nature. However, these contrary characteristics are typically discouraged, inhibited or suppressed in command and control hierarchies that depend on obedience and conformity.'<sup>11</sup> Turnbull says that these command and control hierarchies are ubiquitous in government bureaucracies and large corporations, and have become accepted as the natural order of society, when in fact they are not consistent with nature, whose governance is based on decentralism, pluralism and associative relationships.

Similarly, biologist Elisabet Sahtouris says we have become dominated by 'an either/or syndrome' – the sort of thinking that claims you have to choose either capitalism or communism because you cannot be for both. Even within our political democracies, we divide ourselves into 'radical' and 'conservative' and ask ourselves to choose. Sahtouris says that in nature no living system chooses between conservation and radical change. Instead, 'Most species combine conservation and change as the circumstances demand, to protect what works and change what doesn't.'<sup>12</sup>

### Applying Organic Principles to the World's Economic System

In a global economy that obeys the principles of living systems we would expect that each country's economy would be part of a larger international economy, yet would retain its integrity. Each local region within a country would also retain its integrity, and its boundaries would be managed. When self-interests clash, a local region would negotiate with the country or with another region for a win-win solution. There would thus be a system of nested economies, each whole in itself, so that the smallest economy would be just as important as the global economy.

There would be no waste. Industries would use local resources to a maximum. Each economy would be self-organising and self-adjusting. Each would have several centres of organisation linked in a complex web, rather like the hormonal system of the human body. Individuality would be cherished, cultures would thrive and patterns of organisation would be strong. Cooperative behaviour would be rewarded. Resources would be used wisely and hence transport made frugal. People would be able to access more and more goods and services in their own district rather than import them from the other side of the world. Information sharing would increase. Goods like furniture could be designed in one place, and the designs bought over the Internet, rather than the

furniture transported at great cost for thousands of miles. Last but not least, there would be a variety of currencies of various sizes, at least one for each economy. The latter is an essential tool for managing borders, so that money does not leak out and pool in the hands of a few rich shareholders.

It is clear that the current global economy is far from this ideal. Instead, we live now in a world where an increasing proportion of what we consume is made somewhere else. Two-thirds of world trade is conducted by one or more transnational corporations.<sup>13</sup> Economic colonisation by powerful multinationals has damaged the very patterns that make up the cultures and economies of sovereign countries. Rather than cooperate with one another, countries – which are rapidly losing their sovereignty to the corporates – fight over resources.

This global monoculture also occurs at the level of currencies. In their book *Gaian Democracy*, Roy Madron and John Joplin called this monetary autocracy, or 'monetocracy'.<sup>14</sup> The dollarisation of countries such as Ecuador, the imminent expansion of the scope of the euro to a dozen other countries, and the debate in Australia about imposing its currency on Pacific island nations or adopting the US dollar are all pointing towards a globe dominated by two or three major currencies.

As we compare the global economy to Korten's list of ecological principles outlined above, we can see we are a long way off the ideal. Elisabet Sahtouris transposes transnational colonisation, whereby wealth is extracted from the poor South and sent to the rich North, to the context of the human body:

*Our bodies work in remarkably harmonious health. But imagine what would happen if our bodies tried to implement an economic system such as we humans practise in our world at present. How would your body fare if the raw material blood cells in bones all*

*over your body could be mined as resources by the more powerful 'northern industrial' lung and heart organs, transported to their production and distribution centres where blood is purified and oxygen added to make it a useful product? Imagine it is then announced that blood will be distributed from the heart centre only to those organs that can afford it. What is not bought is thrown out as surplus or stored till the market demand rises. How long could your body survive that system?<sup>15</sup>*

In the current global economic system, nAs we check the global economy against the list of ecological principles outlined above, we can see we are a long way off such an ideal. In the following text we will refer to these ecological principles by a number in brackets.

Not all holons have been involved in decision-making, there has been insufficient negotiation between the holons, self-regulation is woefully inadequate, and the input of matter and energy has been unsustainably rapacious. We have not recognised complexity and diversity as an asset, instead imposing Western cultural patterns of industrialisation, education and fashion on the world as a whole. Monoculture is a very strange concept to biologists, and social monoculture is rooted in an ignorant fear of difference and of scarcity.

Our system neither empowers nor employs all humans, and while our communications are technologically impressive, we don't use them to coordinate parts and functions. Indeed, misinformation and secrecy are the stuff of competitive advantage and profit maximisation.

The corporate globalisation of the early 21st century certainly doesn't fit the biological model described above. Trade and finance borders have been broken

down and money has been moved around the globe in search of the best returns, enriching those who are already well-off and draining resources from the poor. The imperative of continuous expansion of global trade has resulted in a situation where identical goods are transported unnecessarily between countries at great energy cost.

And resources and energy are pooling rather than moving. In nature, one part of an organism doesn't grow at the expense of the other, but in 1999 the top three billionaires had assets that exceeded the combined GDP of all least developed countries and their 600 million people.<sup>16</sup> In contrast, no member of a well-functioning family with the interests of the whole at heart makes decisions that disadvantage others.

Sometimes countries do manage their borders and protect their integrity. In Malaysia, for example, after watching the disaster that took place across Asia in 1997 when international finance speculators withdrew their capital, Prime Minister Mahathir Mohamad decided to defy the IMF. He effectively put out of bounds any speculation on the value of the Malaysian currency. In September 1998, Mohamad announced that the ringgit would no longer circulate outside the country – there would be one month's grace in which people could bring home any currency abroad, after which it would be worthless. The government fixed the exchange rate and non-residents had restricted access to the ringgit. If residents wanted to invest abroad, they needed permission to do so. As a result, the economy did not collapse to the extent that it had done so in Indonesia and Thailand, where capital had flowed out and currency values dropped. The IMF later graciously commented that the capital controls 'had produced more positive results than many observers had initially expected'.<sup>17</sup> This is a most salutary



lesson in the importance of managing borders in what is rapidly becoming a borderless global economy.

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### Applying Organic Principles to New Zealand

In Chapter 2 I discussed evidence of the growing gap between rich and poor within New Zealand and quoted some rather distressing social indicators. There is also a huge difference between the various regions within New Zealand. From this a picture of the country emerges that demonstrates what happens when conventional economics emphasises competition, expansion and domination at the expense of respecting the ecological principles of living systems.

During the 1990s, Auckland suffered from congested highways and decaying infrastructure, while certain small towns faced the contrasting problems of unemployment, low wages, loss of morale, and lack of full utilisation of their resources. In such an arrangement every New Zealander is a loser.

In order to apply organic principles in New Zealand, we need to examine the economy on the basis of Korten's six principles (see page 000):

1. Is the economy complex and self-organising, or does a central body have to keep making decisions? Are there many centres of decision-making in each area of endeavour (for example, government, industry and health) or just one? Is there continuous negotiation between the holons, or does litigation and stagnation prevail? Is there a hierarchy of importance, or is each small unit just as important as the larger one? Is one town dominating other smaller towns in the district or does each area have just one strong centre of influence to the detriment of other

areas? Is there a continuing dynamic partnership between the whole and the parts?

Perhaps the Treaty of Waitangi, New Zealand's founding document signifying the partnership between Maori and the Crown in 1840, could be a guide to a new model of organisation. In the Treaty there are three holons: the Crown, Maori and the partnership. Each is in constant negotiation with the other two, because each has integrity and is complete in itself, and each has rangatiratanga, or sovereignty. The Treaty is a living document, and study of it helps us to understand the need for continuing negotiation between the holons.

2. Is there continuous recycling of available resources to give everyone abundance through frugal use? Or is there waste of resources, visible in underused transport systems, empty shops, unemployment and a lack of new sites for rubbish dumps? Are goods transported in the most energy-efficient manner? Or, for example, is mail sent to the next town for sorting, only to come back for delivery? Is there curbside recycling? Is there separation of rubbish at source? Is there empowerment of component parts, or are people unemployed while businesses produce unsaleable goods? Is there traffic congestion and pollution? Are there costly delays, as when courier services are offering counselling to overstressed drivers? Is there a waste mountain in the bigger cities? Is there a problem of disposal of hazardous waste from industry? Is the water polluted with pharmaceuticals? Is the food contaminated with pesticides? Is the air clean? Is the soil healthy and full of nutrients? Are local resources used for industry where possible? Is there a pooling of financial resources among a few people while others struggle for basics? Is there wastage in the form of interest on loans? Does every major item of goods have interest built into its cost, so that infrastructure and housing are paid for many times over, causing waste of effort and time?

3. Is the economy uniquely adapted to its place or is it mimicking other economies, for example by competing to attract the tourist dollar? Are the citizens fed with locally produced fruit and vegetables to maximise nutrient quality? Does the countryside produce fruit and vegetables best suited to the area? Is grain grown? Are towns importing bread and milk when they could be produced locally? Does the country have its own community banking system and its own local currencies, or does the global corporate economy help dictate what happens locally? Does the economy respond to internal and external stress well? The Local Government Bill 2001 allows for more autonomy and consequently more diversity among regions. It also requires negotiation to take place between different regions and between regions and central government, but not in the endeavour of creating local money.

4. Is cooperative behaviour rewarded? Are the needs of all the citizens met for housing, education and health? Or do individuals and corporations invade others for more resources? Or does the government favour those with deep pockets who can exploit others? What about local government?

5. Are the borders of the economy managed, or do they leak, letting out money and letting in pathogens? For example, are supermarkets locally owned or does the profit go elsewhere? Is the local community making conscious decisions about what filters in and out of its economy?

6. Is there a high value placed on diversity, creative individuality and shared learning? Or does the local government treat everyone and every group as though they were the same? Is there tolerance of different cultures and languages? Does each area have complete sovereignty over their decision-making (with negotiation) or are they dictated to by central government? Do areas and individuals keep information to themselves rather than share it?

Some estimate the costs of traffic delays are a

## Co-governance with Negotiation

In 2004, New Zealand had a very centralised form of government, with a command and control hierarchy, that saw only 7.6 per cent of public expenditure being spent at the local government level.<sup>18</sup> Local government was very much subordinate to national government, and nothing could be done by territorial authorities unless there was national legislation granting permission. Central government has traditionally had a paternalistic attitude toward local government, devolving functions without meaningful negotiation or giving them the resources to perform successfully.

Not surprisingly, local government bodies found this situation unsatisfactory. The former President of the Local Government Association, Kerry Marshall, told the author:

*We need co-governance with negotiation. I think of it like a family. It is only as strong as the individual members. It doesn't work if the parents make all the decisions and take all the responsibility. It works best if you give a certain level of autonomy to each member. The synergy is that a family is more than just the sum of our parts. But there will always*

*be a tension between the two. The autonomy should never be at the expense of the other members.*<sup>19</sup>

Local authorities wanted the government to devolve authority and money so that they could perform governance tasks appropriate to their size and skills. Some councils were already performing functions beyond their mandate. Wellington, Christchurch and Manukau councils, for example, had a strong role in housing, and in Wairoa, where there was a high unemployment rate, the local authority had been active in the area of employment. So although it was technically not their role, local authorities had taken up certain functions because their communities demanded it.

With the advance of corporate globalisation, combined with an attitude that just paid lip service to the importance of subnational economies and a government that provided no direct funding for gathering local economic statistics, power was concentrated in the big cities, big governments and big corporations. While many cite the merits of regional development, this cannot really be achieved using only one currency, the national currency. Regional development requires regional currencies.

In New Zealand as elsewhere, we have been preoccupied with national economies and national currencies. As Jane Jacobs, author of *Cities and the Wealth of Nations*, says, there is a common unacknowledged, inaccurate and unexamined assumption that 'national economies are the salient entity for understanding economic life'.<sup>20</sup> So preoccupied have we been in defining our national boundaries (and almost no nation states have been created without some bloodshed), that we have virtually ignored the role of our major cities and our

subnational economies. Jacobs says that big cities that provide two related functions – innovation and import substitution – will grow and develop into bigger cities with the ability to shape and reshape economies of settlements geographically distant from their own. The effects of their import substitution, for example, can ripple out to smaller cities. Jacobs describes how businesses in Tokyo first began to carry out bicycle repairs, then they started to replace some of the parts of imported bicycles with locally made parts until finally whole bicycles were being made there. This process was then repeated in other smaller Japanese cities.

With the exception of the recent wealth created by the growing New Zealand dairy industry and better prices for wool and lamb, many rural communities are still feeling the pinch. In almost every developed nation similar communities are losing their young people and their banks and shops.

The good news as we saw earlier is that as the world economy gets bigger, the smallest players become more powerful. When working together they can overcome the most fearsome of opponents for it is at the local level that feedback occurs and new learning appears.

Former MP Marilyn Waring came out fighting when she told the New Zealand Local Government Conference in July 1999:

*I refuse to feel disempowered – I refuse to relinquish my rights as a citizen. In western history despots, tyrants, kings, the church, armies have disenfranchised the people. Multinationals and the economic fundamentalists will not be next. Accountability to cross cultural forums of public opinion, and major efforts at representation of the population must be the reply. There are good grounds to believe that consolidation of*

*democracy at the local government level is the first major response to the internationalisation of the market, and it has certainly always been the vehicle through which the citizens exerted their own rights over their destiny.*<sup>21</sup>

The form of governance today is tending towards a monoculture. Imposing uniformity on an essentially diverse countryside will never work. In 2000, Christchurch Mayor Garry Moore had this to say on the subject:

*Devolution is the only way any self-respecting government could go. The whole concept of government departments trying to find a 'fix all' to fit the whole of the country is offensive to say the least. I know we can get some projects to work on one side of town but not on the other. Some projects will not work in suburbs alongside each other. How the hell can we invent something which will work from North Cape to Bluff?*<sup>22</sup>

AIn contrast, a thriving New Zealand economy based on an organic model would see every part operating like a successful team. In such an economy, people of Stratford, Dargaville, Takaka and Hinds would feel as empowered as those who live in the élite suburbs of Wellington and Auckland. Competition would be properly accompanied by cooperation, conservation and partnership. (It might be interesting to read Shann Turnbull's unusual and exciting suggestion for rural and urban currencies at this point – see Chapter 14.)

The whole organisation can never 'win' at the expense of the constituent parts, for if the parts aren't functioning it will affect the whole. The holon of the New Zealand economy must negotiate continuously with other holons in its holarchy at every level of complexity – Wairoa, Northland, Dunedin, Westland and south Auckland, as well as Remuera, Piopio, Motueka and Taupo. All must



win. All must be conscious of the whole, committed to the integrity of the entire New Zealand economy and yet delight in their own uniqueness.

Isn't Localisation the Answer?

In our enthusiasm to design healthier alternatives to corporate globalisation, we shouldn't conclude that localisation by itself is the solution. What we need is an organic mix of localisation and globalisation.

One of the problems with being involved in reform movements is that people tend to throw the baby out with the bath water. In their enthusiasm to change the old, reformers have a knee-jerk reaction – they simply prescribe the opposite.

During the 1970s I was an active member of the New Zealand Values Party, the world's first environmental political party. During that time the party struggled to find an organisational model that reflected its ideals. Members were particularly passionate about our policy of advocating local decision-making wherever possible. When the national secretary sent out information or asked branches their opinion on any matter, the branches would often rebel. What, they asked, was this central secretary doing? How dare he presume to take initiative? Who asked him? Who did the central executive think they were? For his part, the exasperated secretary said that only a small number of branches ever took initiative at a national level or even bothered to reply to his questionnaires. From this

I concluded that for a political party to function well there needed to be both good centralisation and good localisation; it wasn't just a question of either one or the other. Centralisation is as necessary to an organisation as the heart is to the body, while localisation and specialisation of function are equally necessary, just

as the individual organs of the body have specialist functions yet all are essential to our well-being.

According to biologist Elisabet Sahtouris, the growing debate on globalisation versus localisation is a futile exercise. Instead, she argues for doing globalisation better rather than opposing it. She says that in nature species adapt by conserving what is working and altering what is not; they don't just suddenly change.<sup>23</sup>

Translating that to the economy, as each economic system adapts, whether at the community, local or national level of complexity, the delicate patterned web of social relations can remain in place.

In the organic model I have discussed in this chapter, healthy local economies are embedded in healthy regional economies, which in turn are embedded in a healthy national economy, which in turn is embedded in a healthy global economy. Each level of organisation has its internal energy system – its own currency. International trade will use an international currency, supranational trade will use a supranational currency, national trade will use national currency, and regional trade will use any one of a variety of regional or local currencies.

Keeping this organic model in mind, I will move on in the next chapter to develop the theme of how local currencies can work to complement but not replace national currencies, and why a diversity of economies necessitates a diversity of currencies.

## Why Complementary Currencies?

*If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks ... will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered. ... The issuing power should be taken from the banks and restored to the people, to whom it properly belongs.*

– Thomas Jefferson<sup>1</sup>

This 18th-century quote by the famous American statesman was an early warning against becoming reliant on bank-created money. Since attempts to reform the creation of money are going to be tricky at the national level, it is easiest to work from the bottom up, complementing scarce bank money with sufficient local money. The issuing power of money will then be restored to the people at local levels of organisation, and in time reforms will hopefully be possible at the national level.

In this chapter I look at the advantages of creating local currencies and the reasons why in recent years they have grown in popularity.

To avoid any suggestion of a hierarchy of currencies, it is now becoming common to call subnational currencies ‘parallel currencies’ or ‘complementary currencies’. They are also called ‘community currencies’, because a community does not have to be local – a currency can even be created on the Internet. Here, with reference to currencies, I use the terms complementary, parallel, local, community and supplementary interchangeably.

The democratisation of national currency creation is a topic that has been addressed by many writers and political groups, but it is not the chief topic of this book. Groups working towards this goal include COMER of Canada, the Bromsgrove Group of England, ERA of Australia and the Democrats of New Zealand. Serious proposals have been developed by J. Huber and James Robertson, authors of *Creating New Money: A Monetary Reform for the Information Age*,<sup>2</sup> and by Patrick Carmack and Bill Still, makers of the video documentary *The Money Masters*.<sup>3</sup> Still others spend their lives working for the sovereignty proposal, or community credit, which calls for central banks to create interest-free loans for publicly mandated infrastructure capital works.

The democratisation of international currencies is also important. As we saw in Chapter 4, economist John Maynard Keynes tried hard – yet unfortunately failed – to have a democratised international currency adopted in his proposal for the bancor at the Bretton Woods Conference in 1944. More recent proposals for new international currencies will be discussed in Chapter 14.

### The Benefits of Community Currencies

Although a great deal of attention has been paid to reforming national and international currencies, a quiet, unassuming worldwide movement to reclaim monetary democracy at a local level has begun – namely the movement to create local currencies.

Stephen DeMeulenaere, a complementary currency worker based in Asia, says the general benefits of parallel currencies are:

1. *Increased volume of currency in a local area;*

2. *Increased liquidity in a local area;*
3. *Increased access to the local market;*
4. *Increased possibility of local import substitution;*
5. *Increased employment opportunities;*
6. *Increased importance of traditionally undervalued activities;*
7. *Discouragement of environmentally destructive activities;*
8. *Increased support for small enterprise development;*
9. *Increased strengthening of social relationships;*
10. *Exhibition of a counter-cyclical economic tendency.*<sup>4</sup>

In his 1996 book *Short Circuit*, economist Richard Douthwaite recommended locally owned banks, land trusts, locally grown food and locally generated energy. But the thing that struck me most was that he said, 'The establishment of a local money system is fundamental to greater economic self reliance.'<sup>5</sup>

Susan Witt of the E. F. Schumacher Society in Massachusetts says that the supplementary currency movement is flourishing, and that it is a powerful tool for community cohesiveness and rejuvenation. Part of this cohesiveness lies in connecting investors with the products their money finances. In her online newsletter on local currencies, she Witt says:

*With the rapid globalization of the economy, our financial relations have grown more and more abstract. We collect interest without knowing how or where such profits were made and order by mail from catalogues sent by people we have never met. We no longer know the stories of the things we use in our homes nor assume responsibility for the consequences of our investments. Can we picture the artisan who made our kitchen table or*

*her children who were fed by its purchase? Have we walked the forest which was the source of its wood?*<sup>6</sup>

### Regional Money Leads to Regional Development

For many years, central governments in numerous countries across the world have promised to strengthen local economies. However, instead of starting with locally created currency, discussions have centred on how to attract national investment to the district and how best to assist sunrise industries. Conventional efforts to develop local economies typically focus on acquiring more tourism, but if each district goes for this option they simply end up competing with each other and bidding down the prices.

British economist John Maynard Keynes was an advocate of localisation where possible. He said, 'I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let the goods be homespun wherever it is reasonably and conveniently possible...'<sup>7</sup> In India, Mahatma Gandhi was also an advocate for strengthening local communities. He wanted the government to surrender much of its power to local villages, and his programme of *swadeshi* meant, in effect, local self-sufficiency. Satish Kumar, a Gandhian scholar, says:

“Gandhi’s vision of a free India was not of a nation-state but a confederation of self-governing, self-reliant, self-employed people living in village communities, deriving their right livelihood from the products of their homesteads.”<sup>8</sup>

If local economies are to strengthen, they must keep money circulating locally and not be dominated by bank credit. A Wanganui retailer produced car stickers urging people to buy locally, when exhortations to that effect haven't so far made much impact? For shoppers with an eye for a bargain, realism sets in – people will almost always buy the best value for money. Despite all the rhetoric, consumers, no matter how well meaning, rarely choose a high-priced locally made item over a low-priced item manufactured overseas. And multinationals can easily undercut small local companies. So if appealing to loyalty to one's home town is insufficient to alter buying behaviour, what does work? Why is it that buyers will drive to the next town to shop at a discount store while paying lip service to supporting their main-street retailers?

The only way buying behaviour will alter to the benefit of the local economy is when there is sufficient local currency for people to make real choices. A customer with plenty of local dollars but few New Zealand dollars would have a genuine option to buy local. I once decided I wanted to buy a locally made dress for my four-year-old granddaughter, so I went to my local suburban childwear shop and found one for NZ\$70. Despite my good intentions, however, I didn't buy it but drove to a mall where I bought a NZ\$12 dress made in China at a discount store. The price difference was just too great and my ideals went out the window. However, in this situation if I had had an adequate supply of a local currency in my purse my buying decision could well have been different.

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Local development without local currencies is well nigh impossible, and regional money is an essential part of regional development. To speak of strengthening local economies using national currency will, I believe, come to be recognised as a contradiction in terms. History has shown many examples where the reverse has

happened – the imposition of a coloniser’s currency on a newly colonised nation, for example, is the surest and quickest way to distort its social structures and damage its economy.

Although complementary currencies have yet to make their appearance in the mainstream economics literature, in official government publications, in articles about sustainability and regional development, or even in the papers of political parties, some universities are leading the way. In the UK, for example, the Geography Department of the University of Leicester runs an Internet discussion group on complementary currencies.<sup>9</sup>

Also in the UK is the Wales Institute for Community Currencies, a partnership project between University of Wales College Newport, Time Banks UK and Valleys Kids (a charity working with young people in the south Wales valleys). The project is part-funded by European Regional Development Funds, and in the shorter term (after three years of European funding) it aims to test out various applications of community time banking in at least 16 of the most marginalised communities in the south Wales valleys. In the longer term, the institute aims to test, monitor and evaluate all forms of community currencies in the arenas of community development and social and economic regeneration.<sup>10</sup>

### The Growth of Complementary Currencies

As we will see in the next chapter, LETS (Local Exchange/Employment and Trading Systems) was developed in Canada in the early 1980s (although some systems did exist in Japan in the 1970s), and from there spread rapidly around the world. During the 1990s, other types of local currencies emerged – time dollars,



Ithaca HOURS and commercial trade barter. Then fiat money appeared. These currencies were designed at an accelerating pace and in increasingly sophisticated forms. By October 1998, Bernard Lietaer told the LETS Link UK Complementary Currencies Conference that he had 1650 local currencies on his database;<sup>11</sup> the situation has since mushroomed to one where it is hard to keep up with all that is going on.

At the turn of the 21st century, a bold new version of Ithaca HOURS, a fully redeemable gift voucher, was issued on a small island off Vancouver. A gift voucher scheme was spreading rapidly in Brisbane in 2002, and, after author Margrit Kennedy interviewed its founder, this scheme started to be used as a basis for many planned regional currencies in Germany in 2003. In November of that year, Declan Kennedy of Monneta, an organisation based in Steyerberg, Germany, set up to foster regional currencies, reported:

*There are 30 serious projects for complementary currencies on the regional level in Germany and Austria – and a few other in other countries that have been asking for advice, one from Poland and one from Switzerland. There are only two in Germany which have got off the ground: Chiemgauer in Prien and Roland-Regional in Bremen. We could not keep up timewise with the on-slaught, soooo ... We have created a network: RegioNetzwerk.<sup>12</sup>*

Knowledge is increasingly being spread via the Internet, and more and more books are being written about community currencies and money generally. During the late 1990s, writers such as Bernard Lietaer,<sup>13</sup> Thomas Greco,<sup>14</sup> David Boyle,<sup>15</sup> and Glyn and Roy Davies<sup>16</sup> and others also reminded us that local currencies have

existed and thrived for thousands of years, especially in times of economic depression.

Advocates of local currencies now include people of the calibre of Bernard Lietaer, who spent five years at the Central Bank in Belgium, where his first project was the design and implementation of the single European currency system. Lietaer has also been a currency trader and a professor of international finance at Belgium's oldest university, and has worked as a senior consultant to both multinational corporations and developing countries.

After a conference called 'Money Moves, Away from Scarcity and Greed', held in July 2003 under the leadership of Jacqui Dunne, an international organisation called ACCESS was founded (based in Boulder, Colorado), specifically to act as a clearing house for complementary currencies and to encourage their growth and development. In New Zealand, the equivalent of this organisation is the Stable Money Trust (see Appendix 2).

### Why Have Community Currencies Arisen?

The rise in the use of community currencies has come about for a number of reasons, which I will look at in turn. First, they are popular because national currencies are in short supply; second, because they are an antidote to globalisation; third, because they are a response to the lack of support from governments in looking after an ageing population and in delivering health care to a population whose expectations are rising; and, finally, because they are a natural response to urbanisation and growing income disparity.

The interest-bearing debt money system we currently use creates a chronic shortage of money, yet it is in the self-interest of banks to continue to issue money in this way as it maximises their profits. As money is transferred from the poor to the rich, the poor have to find ways of coping, and this is when man's ingenuity comes to the fore. In times of recession and high unemployment, trade barter tends to thrive. Ordinary people are creating local currencies to supplement the scarce national currency, and have managed successfully to implement such systems in countries across the world, from Australia to Uruguay, and from Argentina to Thailand. Rapid communication allowing the exchange of views about currency design now helps maximise the chance that these complementary currencies will succeed.

Corporate globalisation causes people to experience vulnerability and a loss of control, as decisions are made in the major trading centres of New York, London, Tokyo and Sydney that leave locals out of the process. In response to this loss of control to the corporates, local communities are now starting to create their own money in an act of self-empowerment.

Small towns in particular suffer badly from competition with the global corporates, and it is natural that local people will respond in defence of their business community. As rural people drive further to access services and to shop in the cities, so the social capital built up in small towns over generations erodes. For example, when a large shopping mall comes to town offering cheaper goods and bigger parking areas, it threatens the viability of main-street shops in neighbouring small towns. In this way, money is constantly draining from small towns towards the shareholders of multinationals. What has yet to be recognised is that a well-designed regional currency, in conjunction with other complementary currencies, can make a significant contribution towards the reversal of this trend.

In addition, by focusing on local economies and community currencies goods will be cheaper, people will be able to save more and the national economy will be more effective. In her book *Interest and Inflation Free Money*, Margrit Kennedy illustrates that every consumer item – whether a needle, a television or a fridge – has included in its price built-in interest rates. Kennedy goes on to cite a German economist, who has estimated that 30–50 per cent of all prices are composed of interest.<sup>17</sup> Simply by lending money interest-free will therefore lead to a vast improvement in our quality of life.

So at the heart of the local currency movement is a yearning for more control, and for more sense of place and community. Local currencies are a powerful tool for community cohesiveness and rejuvenation. Paul Glover of Ithaca, New York state, sums this up well: ‘We printed our own money because we watched Federal dollars come to town, shake a few hands, then leave to buy rainforest lumber and fight wars.’<sup>18</sup> Similarly, in 1999 t

The *Christian Science Monitor* reported: ‘If globalisation has got you down, take heart ... The motivation behind local currencies stem more from a view that communities are losing their sense of interconnectedness among residents, who don’t know each other and who buy goods that are imported with dollars that are often earned from a distant corporation.’<sup>19</sup> Wherever there is a desire to create a sense of community, to build a local economy and to have greater interaction between people living in the same area, there is a reason to create a local currency. Creating local currencies that lend money interest-free also gives communities the power to fund local projects themselves. This will avoid the situation we have now, where the imposition of compound interest means ratepayers foot the bills for bank-financed infrastructure projects and citizens end up paying for capital works such as sewerage systems three or four times over.

Another reason behind the increased use of community currencies is the ageing of populations. The health budgets of governments can't stretch far enough to care for the growing numbers of elderly, disabled and chronically sick people among us, especially when medical science is delivering a vast array of new drugs and medical procedures that extend our lives still further. Much of the health expenditure actually goes in caring work, which involves labour. Since labour is always local, it is not necessary to use scarce national currency to pay for it. Japan's Hureai Kippu scheme (see page 000) shows how time dollars can be a useful supplement to the national currency in easing this situation, and is a set-up that could easily be adopted and adapted in New Zealand and elsewhere.

The implementation of a local currency can also help to ease the problems of urbanisation and growing income disparity. In an example of this, when faced with mounting rubbish and streets too narrow for the rubbish trucks to negotiate, Jamie Lerner, the former mayor of the growing city of Curitiba in Brazil, gave out a bus token to people when they brought in a bag full of sorted rubbish. Those bus tokens effectively became local Curitiba money, and the neighbourhoods were soon cleaned up. Later, food vouchers were also paid out. When faced with having to solve one problem, Curitiba thus invented a new means to solve three problems – transporting people to their jobs, cleaning up rubbish and feeding its people.

The only currencies we are familiar with today are national currencies, but the pendulum is turning. Complementary currencies are now being created in a greater variety of forms. As we shall see in the following chapters, some of these succeed, some are modified over time and some fail.

When I advocate the use of complementary currencies, it does not imply that I think localisation is superior to centralisation, or that they should ever replace the national currency. It is not a question of either/or, for in the organic model

there is no hierarchy. As we saw in Chapter 8, each economy, no matter what its size, is a part of another economy, yet is also whole and complete in itself. In such a model each economy has its own currency, and no currency is superior to any other – they simply serve different functions. In the next five chapters, I will look at the different forms of complementary currencies, starting with user-issued currencies.

10

## User-issued Community Currencies

*If we stop the circulation of money – if our only intention is to hold on to our money and hoard it – since it is life energy, we will stop its circulation back into our lives as well. In order to keep that energy coming to us, we have to keep the energy circulating. Like a river, money must keep flowing, otherwise it begins to stagnate, to clog, to suffocate and strangle its very own life force. Circulation keeps it alive and vital.*

– Deepak Chopra<sup>1</sup>

This chapter describes some of the main types of publicly issued community currencies, focusing on what is happening in New Zealand, but also looking at examples from across the world. These are local currencies that have been issued by communities in order to increase trade within their region and to promote self-empowerment. As before, I use the terms community currencies, complementary currencies and parallel currencies interchangeably.

Bernard

Lietaer says that complementary currencies arose with regularity during the 1830s, 1890s and 1930s, and that today they are being created in the midst of a worldwide depression and in a time of enormous financial instability.<sup>2</sup> Lietaer suspects, therefore, that these local currencies are here to stay; their numbers are certainly increasing, as I discussed in Chapter 9.

As we will see below, there are several possibilities for successful parallel currencies. Some are backed by a national currency or a commodity, some are fiat money (issued by a central authority and not backed by any commodity), some are private currencies and some are public. The type of money that is created doesn't greatly matter, but the key to its success is the level of trust the community places in it.

### Green Dollars, or LETS

The mostly widely known complementary currency is a very promising but ultimately limited mutual credit system called green dollars, or LETS (Local Exchange/ Employment and Trading System); here I use the terms interchangeably. The first LETS was developed in 1983 by

Michael Linton, David Weston and John Turmel in the Comox Valley of British Columbia. Jobs in the region were in short supply and so was money, so the trio started up a mutual credit system of trading.

LETS operate within a restricted circle of members, enhancing the well-being of all who trade and creating a micro-economy in a geographically bounded area. Members trade with one another in units called green dollars, or some other name they choose, and the currency is usually on a par with the national currency. Details of trading transactions are reported, either by phone or by chit, to an accounts administrator, who enters the information on a computer and produces regular statements that are issued to each member to inform him or her of their trading balance. The administrators are either volunteers or are funded by a variety of government schemes and trusts. Exchanges are usually dependent on the few keen people who run them.

A coordinating committee publishes a directory of LETS members, listing what they have to offer and their phone number. Market days encourage social contact and help build mutual trust. During transactions, no cash needs to change hands, although mixed currency is agreed for some trades (part in green dollars and part in the national currency). Prices are negotiated between the buyer and seller. No interest is charged on a negative balance nor earned on a positive balance. Apart from subscriptions and activity levies, access to credit is therefore free.

Each member of a green dollar system opens a trading account at zero, and may immediately trade in either direction, debit or credit, within limits set by the administration. When trader A makes a purchase of goods valued at, say, G\$10 from trader B, this will be reflected in their respective account balances: A's balance will be debit G\$10 and B's will be credit G\$10. Both A and B may choose to trade with other members in the same way, and ideally each member should aim to have their account balance pass through zero from time to time annually. Each transaction changes the balance of the trader, but not the overall zero sum within the system. 'Money' is thus created and cancelled when members trade with each other, and credits and debits within the entire system should add up to zero. Thus the 'money supply' expands and contracts according to the amount of trading being done, and is always sufficient for what the trading members wish to do.

The idea is for members to keep their account around zero. Any debt incurred is balanced by a commitment to the other members to earn credit in the future. Debts are a normal, healthy part of the system, and are not in themselves bad. Many green dollar advocates agree that the only debts that are bad are those that people have no commitment to honouring. Since this idea of 'debit' is a new mind-set, some maintain that it requires a new word.



In New Zealand in 1984 the Lange-Douglas Labour government came to power and started a radical 15-year restructuring programme that resulted in high unemployment throughout the country. So, as researcher Mark Jackson commented, “the time was ripe to establish green dollar systems as appropriate responses to the hardships that many people were experiencing”.<sup>3</sup>

In the same year, both David James, a Northland community educator and Quaker on study leave in Britain, and Vivian Hutchinson, a New Plymouth employment activist, attended the London conference ‘The Future of Money’, where there was a workshop on green dollars. The conference was organised jointly by the Quaker Social Responsibility and Education Committee and James Robertson’s New Economics Foundation. David came home and founded the Whangarei Exchange and Barter System (WEBS) in 1987, and Vivian started a similar scheme in New Plymouth. Their enthusiasm, and the television publicity surrounding the establishment of WEBS, prompted the launch of numerous other green dollar exchange systems throughout New Zealand, including the Plains Exchange Barter System (PLEBS) in Christchurch and How About No Dollar System (HANDS) in Golden Bay.

However, 13 years later the overall trading volume of New Zealand’s green dollar systems was infinitesimal when compared with the national economy – for example, Wellington Green Dollars turned over just G\$25,000 in the year 2000.<sup>4</sup> But while most members do very little trading, there are some committed members who live and breathe green dollars. Wairarapa Green Dollar Exchange coordinator Helen Dew, for example, traded strongly in the first nine years of her membership. She and her husband earned green dollars through their cottage nursery, and through sales of spray-free fruit and vegetables from their quarter-acre property in Carterton. Those earnings were spent employing green dollar workers in the nursery, and on alternative healing consultation, gifts, eggs, nuts, honey, haircuts, baking, dressmaking, art, home help, firewood and home maintenance. They used some of it on a home renovation project, spending their precious New Zealand dollars on materials from local businesses and using green dollars to pay for labour. ‘Belonging to green dollars enabled us to complete the project without going into debt, and it also meant we increased our social contacts,’ said Helen.<sup>5</sup>

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Since green dollar exchanges first started up in 1983, many have risen and fallen. Mark Jackson, working in Australia towards a PhD in geography about LETS, toured New Zealand for five months in 1993 visiting and visited as many green dollar schemes as he

could. He described them as 'a rapidly evolving, sometimes growing, sometimes declining movement'.<sup>6</sup> Paul Ketko, a geography student researching New Zealand's green dollars in 1997, said at the time that he knew of 45 LETS systems,<sup>7</sup> but by December 2000 this number had reduced to 33. Extensive descriptions of green dollar systems are found in the writings of Thomas Greco, Richard Douthwaite and Bernard Lietaer, where New Zealand is often portrayed as having strong LETS schemes. However, these authors have been reliant on Mark Jackson's research, carried out at the height of LETS activity. Since then the overall experience has fallen short of early expectations, and many visitors to the country have been disappointed to see our declining LETS at first hand.

So what makes a successful exchange? For starters, LETS should be kept small because they operate best when members know and trust each other. Richard Douthwaite and Dan Wagman comment, 'Very few LETS systems have been able to recruit and retain over 200 active members.'<sup>8</sup> There can, however, be a relatively large membership – in Golden Bay in 2001, for example, it was estimated that more than 4 per cent of the population of 4000 were members of the local green dollar system.

In a 1999 article in *G\$ Quarterly*, Maureen Mallinson, organiser of the long-surviving Thames green dollar system, summed up the reasons for their success. She said that they operate a balanced system without a management account deficit and use intertrading (trading between exchanges). Communication between members is fostered by regular monthly newsletters and accounts, by monthly markets and triannual auctions, by the use of brokers to facilitate trade, by having a buddy system and by holding banquets. Their coordinator is paid in green dollars.<sup>9</sup> In November 1997, Maureen also told Richard Douthwaite and the author that when members join their credit is limited until they become established traders, and is lifted only when they become regular traders, crossing the zero line regularly.

It is quite a challenge to run a balanced system. Many systems put a debit restriction on their members but do not impose the same corresponding credit limit, with the inevitable result that some members accumulate high credit balances while others for whose services there is limited demand may have continual debit balances. Here, it is the member holding the credit balance that is posing the problem, not those with debit balances.

#### Issues for Green Dollar Exchanges

- 
- Members who accumulate too much credit need to find ways of spending it.
- Those who leave the system with a debit account cause the system to be in debit.
- Too much pressure is put on committee members, who end up resigning through burnout or internal disagreements.

- There is too little education of committee members.

Unlike commercial trade barter companies (see Chapter 11), which restrict the numbers in each occupational category and actively act as brokers (trade coordinators), there is seldom any monitoring of the make-up of membership of green dollar exchanges, so that an imbalance of supply and demand results. Many prospective members complain that there are too many alternative healers and not enough people who sell food. Most of the exchanges that no longer exist simply vanished into the ether, neglecting to zero out their members' trading accounts.

Richard Douthwaite and Dan Wagman, after many years of advocacy and research on LETS, believes the main weakness in most LETS systems can be traced back to Michael Linton's original philosophy:

*This was that it should be left to each member to decide how much indebtedness he or she could take on and if other members, knowing the state of the member's account, sanctioned that decision by selling more of their goods and services to an already-indebted person, that was OK. Despite the fact that a major factor in the collapse of Linton's pioneering Comox Valley system, after a few year's trading, was the high level of personal indebtedness of Linton's personal account, many systems have continued to adopt his approach.<sup>10</sup>*

Douthwaite and Wagman contrast the general unwillingness of LETS administrators to impose sanctions on members who run up debits and then stop trading, with the legally enforceable agreements backed by collateral applied by WIR, the successful and long-lasting Swiss trading circle founded in 1934 (see Chapter 11).<sup>11</sup>

### Trading between Green Dollars Exchanges

Obviously, LETS systems would work better if members could trade between exchanges. This poses many challenges. New Zealand green dollar exchanges have been experimenting with a rather cumbersome system of trading between branches that was originally called G\$ Connections but is now known as LETS Connect NZ. If members want to trade with another exchange, they don't have to join it. Instead, they contact the management of their local exchange, which gives them a letter of credit (valid for two months) to say how much they can spend or earn. They then take this letter to the other exchange, which facilitates trading. The trading is done between exchanges, and the LETS Connect accounts are between exchanges.

Not all exchanges have joined Connect and certain issues have arisen, which are essentially the same as those facing exchanges – namely, large, static imbalances or exchanges leaving with bad debt or a credit. Exchanges that are popular as holiday

resorts may find themselves amassing big credits, to the detriment of all member exchanges.

National conferences of green dollar exchanges have been held in New Zealand since 1992 and have run annually since 1995. For a few years, the conference market has used a temporary unit of exchange called ZACS, valid just for the duration of the conference.

### Tax and Benefit Abatement

A barrier to the spread of green dollars in New Zealand has been the issue of how it is treated for the purposes of benefit abatement by Work and Income New Zealand. Under the rules, beneficiaries can earn up to NZ\$80 before it starts to affect their benefit. The Department of Social Welfare ruled in 1995 that: 'The New Zealand Income Support Services regards "Green Dollars" as income where regular trading circumstances occur.'<sup>12</sup> Committee member Bryan Duxfield, coordinator of a committee set up by the Green Dollar Exchanges Conference, commented, 'I passed that letter around at a meeting. The feeling I received was that certain members preferred to remain unnoticed regarding their membership of Green Dollars ... No amount of explaining that DSW [the Department of Social Welfare] and other government agencies like the Labour Department and IRD [Inland Revenue Department] had known about Green Dollars for years did anything to allay their concerns'<sup>13</sup>

The Inland Revenue Department has ruled that if green dollars income is earned from the member's primary business activity, then income tax is payable. However, if the green dollar earnings are from a secondary activity or a hobby then no income tax is payable. For example, a plumber might earn money in the LETS system from both plumbing and from his hobby of beekeeping; in this case, income tax is not payable on the green dollars earned from selling honey, but it is on plumbing work.

### Green Dollars: The Future?

New Zealand has had an active movement in green dollar systems. Many exchanges have survived for long periods and some have grown quite large. Local government, various agencies of national government and many MPs have also been supportive of the systems. Although the overall contribution these exchange systems have made to the country's economy is minuscule and there are many problems associated with them, they have played – and in some cases are still playing – a valuable role in helping out those on very low incomes. Trading is taking place that otherwise would not have

happened. People have been able to help themselves at no cost to the taxpayer. Moreover, and not something to be underestimated, hundreds of New Zealanders who have been active on green dollar committees have learnt about money – how it is created and how it is cancelled.

From the ashes of the green dollar movement (the number remaining in 2004 was 16, two of which were in the process of closing)<sup>14</sup> more sophisticated forms of complementary currencies are bound to arise, or the LETS movement itself may make radical changes that will either reduce or adequately fund administration costs and ensure that more trading occurs. Ideas, some of which have already been put into operation, include having members trade on the Internet, the introduction of technology such as electronic card readers, better software and, most promising of all, the imposition of a demurrage charge to stimulate circulation.

### Time Dollars or Time Banking

Right up there in the vanguard of a revolution that extends the creators of money from governments and banks alone to the people themselves is the time dollars system. This is basically a LETS system with a different purpose, and has been described as a sort of bank where people can deposit care, giving and withdrawing it when they need it.

Time dollars was invented in Washington, DC, in 1980 by Professor Edgar Cahn, a former legal adviser to Robert Kennedy, to address the inadequacy of government programmes dealing with social

problems. Since then, the system has spread to the UK as Fair Shares and is well entrenched in the Japanese health-care system.

Time dollars operates under quite a different philosophy to LETS, as it turns time into buying power and there is no emphasis on spending credits. In fact, commonly only 15 per cent of time dollars ever gets spent.<sup>15</sup> If you become a participant of a time dollars project, you earn credits for the time you spend helping other people. One hour of service earns you one credit – a service credit or a time dollar. With that credit, you can ‘buy’ an hour of a particular service that you need. If you don’t need all the credits you earn, you can save them up, donate them to someone you know, or give them back to the ‘bank’ so that the people who run the project can make sure the participants with the greatest needs get all the help they require.

Students have used their time dollar earnings to purchase second-hand computers, while David Boyle reports that time dollars have also been used as a mortgage payment on a house from Habitat for Humanity, a charity in the US.<sup>16</sup> Meanwhile, an organisation in New England provides a US\$40 bag of groceries for US\$14 plus two hours of time dollars.<sup>17</sup>

The time dollars system recognises that many people don’t like the idea of accepting charity but instead prefer to feel useful and able to offer something back. Time dollars provide the opportunity for this through working on a basis of reciprocity – in other words, everyone has something to offer and neither age nor mobility need exclude anyone.

This kind of exchange is not new – as discussed in Chapter 7, the gift economy has been used since time immemorial among families and friends. The UK Fair Shares website says that all Fair Shares does is to provide a new structure for neighbourliness, one that turns good deeds into real purchasing power.<sup>18</sup>

The big advantage of the system is that its originator, Edward Cahn, managed to get a tax-exempt ruling for it from the US Inland Revenue Service, after arguing that time dollars do not actually represent money. This has probably been a major factor in the rapid proliferation of time dollar schemes.

Another advantage is that time dollars provide recognition for services that would ordinarily be carried out by volunteers. It allows its participants – who are often women, the elderly, teenagers, students and the unemployed – to redefine themselves as producers and contributors rather than recipients of charity.

The Japanese Health Care Currency

Good ideas are seldom restricted to one time and one place, so it is not surprising that shortly after Edgar Cahn had developed time dollars in the US, Tsutomu Hotta, a highly respected former Attorney General, developed a similar concept independently in Japan after a conversation at the London School of Economics. Hotta's scheme, the Japanese Health Care Currency, or Hureai Kippu, is now probably the biggest time dollar scheme in the world, and evolved when it became apparent that Japan's growing proportion of elderly people could not adequately be cared for with government revenue alone.

As far back as 1970, a Japanese woman called Teruko Mizushima established her own 'volunteer labour bank' and before long had 3800 members in her network. The women cleaned, took care of the sick, cooked and babysat for each other. Another Japanese woman started church-based time banks in 1981, and by June 1990 at least 46 other organisations were operating in the country based on that principle. Thus the Hureai Kippu scheme had fertile ground prepared for its arrival.<sup>19</sup>

In Hotta's scheme, participants work for an hour helping old people with their shopping or housework. If the participants work outside the hours of 9am to 5pm, they get one-and-a-half hours credited to them, and if they do body care they get two hours' credit. They can then either keep their time dollars themselves to use later, or can donate them to their elderly parents in another part of the country for immediate use. Bernard Lietaer, who has undertaken a study of the complex provincial and national systems operating in Japan, says:

*What was most fascinating to me about this complementary currency service is that people prefer the service paid in the health care currency to the same service paid in Yen because it is more caring. While a professional paid in Yen gives only a standard service, the little old lady I am helping represents my mother, so I am inclined to give a bit extra. That difference in quality is something which economists cannot see, but is extraordinarily important.<sup>20</sup>*

The success of this scheme could easily be replicated in New Zealand and other developed economies. National currency is simply not needed to pay for labour-based expenditures such as caring for the elderly, and in these situations time dollars can be created in abundance instead.

### The Community HeroCard

The concept behind the now defunct Community HeroCard is appealing. The experiment, which ran from 1997 until 2004, worked to some extent and attracted considerable grant money, including funds from the US Chamber of Commerce and local government. Conceived by Joel Hodroff in Minneapolis, the scheme operated in two pilot

forms. In version 1, operating until 2001, volunteers in various charities were given a plastic (non-banking) card as acknowledgement of their work; they could present this at participating shops to claim a discount – typically 15 per cent – in exchange for their volunteer hours. The idea was that there would be a three-way gain: volunteer organisations would attract more help; volunteers would receive discounted meals and other goods; and shops with excess capacity would be saved from advertising. Both the Mall of America and the Hennepin County Board of Commissioners were involved in the early efforts. One volunteer hour was worth ten Community Service Dollars, and one Community Service Dollar was worth US\$1 in purchasing power.

Version 2, which operated from 2001 to 2004, saw the introduction of a magnetic stripe card that could be used in combination with a participant's own cash, cheques or credit cards. This 'loyalty rebate card' was swiped through the retailer's Verifone machine after the purchase and connected through phone lines to the office of CHC Data, the company that licensed limited rights to develop Joel's patented dual currency system. CHC Data then processed the various volunteers' hours worked, rebates earned and cash spent at participating businesses. CHC Data also tracked merchant contributions and donations to non-profit organisations through a web-based transaction system.

The Community HeroCard programme relied on merchant rebates to participants to drive the volunteer incentive programme. From the average merchant rebate of 10 per cent, CHC Data subtracted 20 per cent to pay for the scheme and gave 40 per cent to a charity of the cardholder's choice. The remaining 40 per cent of the merchant's rebate went back to the customer as a cash rebate, which he or she could spend anywhere within the network of participating businesses.

However, through various errors of market positioning, programme design and leadership, the initiative failed to achieve a critical mass of participation and transactions, closing its doors in January 2004 when CHC Data went belly-up. The ideals of the programme never gained enough momentum to push through the barriers it faced. Many individuals from the sectors of business, government, charitable foundations and community organisations felt drawn by the vision of Community Service Dollars as a reward for volunteers and as a way to bring more customers to community businesses. However, the challenges related to the understanding of rebates, volunteer incentives, private ownership and intellectual property laws were beyond the resources and management capabilities of the personnel involved.

Version 2 of the scheme advanced the technology application of cash debit cards and incorporated an important incentive for merchants: closed-circuit cash rebates. Essentially, the concept of this is: 'Spend \$100 here and we will give you an immediate cash rebate to spend elsewhere in the network of more than 50 businesses.' In this sense the scheme was of greatest benefit to merchants and contributed to the local multiplier effect. However, both the merchants and the volunteers found version 2 very confusing



because of the variety of incentives involved. To help the volunteer organisations with the new technology, they were given free IT support and computers as part of their grant funding. A person's volunteer hours or Community Service Dollars were entered into the computers of these non-profit organisations and this information was then fed into a database at CHC Data.

Christian Isquierdo, who evaluated the scheme for Hennepin County, said: 'They tried to cross boundaries they didn't fully understand. The divide between doing social good and promoting local businesses is a tenuous dance of costs and benefits. They never could figure out how to make the whole system work for everyone with less cost. They tried to drive the project on massive transaction fees without including any reciprocal responsibility.'

Joel Hodroff agrees that the system's failure is partly due to the fact that we are still in the early days of dual currency debit cards, and reminds us that early versions of credit cards in the 1960s ended up with acrimonious debate and hundreds of millions of dollars of bad debt. He suggests that besides better transaction technology, it is critical to gain the partnership of mainstream companies in the banking and transaction industries if similar programmes are to have any hope of success.<sup>21</sup>

, formerly Commonweal Hero

,

– formerly Commonweal, Inc. started in 1993 –

As at November

All the following examples of complementary currencies in this chapter are types of fiat money issued by communities – in other words, money that is issued with no backing, but is simply a promissory note by the issuer to accept it for payment at some time in the future.

### Ithaca HOURS

In 1991, Paul Glover led a team in Ithaca, a small town in upstate New York, in creating its own special money, Ithaca HOURS. According to David Boyle in his book *Funny Money*, Glover's background was as an advertising and marketing graduate, draft-resister, graphic designer and community activist.<sup>22</sup> The local LETS scheme in Ithaca had closed down, and Paul wanted a hand-to-hand currency that avoided computers. Ithaca, a town of 30,000, is the home of Cornell University, so Glover consulted an economics professor there and dreamed up a scheme that would not alienate the Inland Revenue Service. Then he went out persuading local businesses to list their services in the directory.

At the start of the scheme the team issued more than US\$60,000 of its own paper money in five denominations to over 1200 participants. These participants can hire each other and buy each other's products, and each month the management publishes a directory listing the names of all the traders who belong to the scheme. David Boyle says that when he visited the town in 1999 they were on issue 29 of the directory and 5700 HOURS, representing US\$57,000, was in circulation. 'The amount of money traded in the five and a half years since the launch was estimated to be somewhere in the region of 150,000 HOURS or \$1.5 million.'<sup>23</sup> And the only thing backing the notes is trust. Glover says that while federal dollars are backed by US\$ 5 trillion worth of debt, HOURS are backed by the belief in the local community.<sup>24</sup>

Each participant was given US\$40 worth of local scrip, which came in four denominations printed with pictures celebrating the town's natural wonders and famous people, and inscribed with the words 'In Ithaca We Trust'. To prevent counterfeiting, the notes were printed using heat-sensitive ink, high rag-content paper, serial numbers and embossing.

The Ithaca unit is the HOUR, where one hour is worth US\$10, the average wage in the county when the scheme started up in 1991. Ithaca HOURS buy plumbing, carpentry, electrical work, roofing, nursing, car repairs, chiropractic, childcare, firewood, and thousands of other goods and services. In 1999, Glover told Flemming Funch's good ideas website:

*Ithaca's new HOURly minimum wage lifts the lowest paid up without knocking down higher wages. For example, several of Ithaca's organic farmers are paying the highest common farm labour wages in the world: \$10 of spending power per HOUR. These farmers benefit by the HOUR's loyalty to local agriculture. On the other hand, dentists, massage therapists and lawyers charging more than \$10 average per hour are permitted to collect several HOURS hourly. But we hear increasingly of professional services provided for our equitable wage.<sup>25</sup>*

Restaurants, cinemas, the Chamber of Commerce, builders, and bed-and-breakfasts all accept HOURS. The local credit union accepts them for mortgage and loan fees, and people pay their rent with HOURS.

Unlike green dollars, which are traded only by members, the Ithaca HOURS schemes are not mutuals; everyone can use the currency. Small loans are also issued, and there is a regular donation to a local charity in HOURS.

After considerable publicity in the media, including *Forbes* magazine,<sup>26</sup> Ithaca's scheme was replicated by at least 40 other towns using the Ithaca Hours Home Starter Kit. These include San Antonio HOURS, Ka'U HOURS in Hawaii, Mountain Money in North Carolina and Kansas City Barter Bucks. The kit has even been requested from Mongolia and from a prison.

The disadvantage of the system lies in judging how much currency to allow to circulate. David Boyle reports that Glover is conservative in the issue of money, so there is no 'wheelbarrow inflation' in Ithaca.<sup>27</sup> Susan Witt of the E. F. Schumacher Society says there is an informal advisory board, called the Municipal Reserve, that keeps an eye on how the scrip is circulating and whether more should be issued.<sup>28</sup> Richard Douthwaite, who also visited Paul Glover while researching his book *Short Circuit*, says: 'The chief structural weakness of Ithaca Hours is that it lacks any means of withdrawing Hours from circulating if the level of trading declines.'<sup>29</sup> Boyle says this is 'one of the reasons why Glover cycles round the town each day checking on the thrombosis in the system'.<sup>30</sup>

But is it going to last? Ithaca HOURS have already lasted a good deal longer and circulated a good deal further than any of the Depression era scrip currencies. Would the currency be quashed if it got too successful? David Boyle says: 'The Federal Reserve once

sent a researcher to check the whole thing out. Paul Glover swung into action and drafted a fearsome statement, outlining the riots and bombings which could happen if the Federal Reserve didn't stop money drifting from rural communities to Wall Street. It was put on the Internet.<sup>31</sup>

And h

ere is what Robert Frick said about Ithaca HOURS in the *Durrell Journal of Money and Banking* in the spring of 1996:

*The HOUR system seems stable and well managed ... and is an interesting mix of social conscience and capitalism. Merchants who have used HOURS to attract customers, raise the profits of their businesses and bolster their bottom lines speak first about the moneymaking benefits of the currency. And if those large zero-interest loans build commerce, if those community organisations supported by HOURS increase the standard of living for the town, and if those in the system felt a tangible effect from those projects, the crystal ball might explode from the influence of HOURS.*<sup>32</sup>

Even though the volume and pace of trading and acceptability of Ithaca HOURS depends largely on the enthusiasm and work of keen proponents, the government now pays Glover's salary and it looks like Ithaca is going to be an important model for the regeneration of small communities. These communities will also be able to benefit from the numerous lessons learnt in Ithaca, particularly about obligations for reciprocity. As Tom Greco wrote in 2001:

*From its inception in 1991 until the present the issuance of Ithaca HOURS has been slowly evolving. What was originally an unbacked currency has become a partially backed currency. In the beginning, Ithaca Money, the predecessor of HOUR Town newspaper, would give four HOURS to anyone who bought advertising in the newspaper. There was an understanding that advertisers would accept HOURS as at least partial payment for whatever they were selling, but the agreement was informal and implied, and there was no requirement that the HOURS be repaid. Later on that amount was reduced from four HOURS to two HOURS. Still later, the administration began to make HOUR loans, in which case there is an agreement to repay.*<sup>33</sup>

## Toronto Dollars

In December 1998, the mayor of Toronto launched the Toronto dollar, a system still in use today. The money is printed by the official mint and backed by the national currency, for which it can be redeemed (at a lower price to act as a disincentive – 10 per cent is immediately given to a charity, so there is only 90 per cent left). Each Toronto dollar is worth the same as the Canadian dollar, but the built-in disincentive means that for each Canadian dollar converted, 10¢ goes to charity. The beautifully designed bills, which

come in \$1, \$5, \$10 and \$20 denominations, can be bought at Toronto's First Post Office and at many stores, and since June 1999 they have been on sale at two branches of the Canadian Imperial Bank of Commerce. Local businesses can buy quantities of the money and put their advertising on the back, and so as money circulates within Toronto local businesses benefit and employment increases.

The main purpose of the Toronto dollar is to create work, through community initiatives and groups that help those who are on low incomes, unemployed or homeless. The initial beneficiary of the fund is Out of the Cold, a network of churches offering food and shelter to the homeless each winter.

In January 1999, the *Toronto Voice* printed the headline 'Local Currency Poised to Spark New Jobs, Business and Vitality'. The article went on to say:

*Our own local currency – the Toronto Dollar – is now a fact, and available at several downtown locations.*

*The idea was created by a group of public-spirited citizens in the St Lawrence neighbourhood, who were looking for a way to kick-start the local economy that would create jobs and encourage new, small businesses (many home-based), making the community a more vibrant, attractive place.<sup>34</sup>*

The *Toronto Post* called the currency the 'Mel buck', and said, 'A Toronto group is setting up their own dollar to be traded among shops in the St Lawrence Market and the adjacent downtown area. Walk into one of the market's meat or cheese stalls next week and you can use nifty-looking \$1, \$5, \$10 or \$20 notes as tender.'<sup>35</sup>

University of Toronto economics professor Abe Rotstein is a supporter of the local currency concept and says there is a sound foundation for such currencies. He has been especially generous in his praise of the Toronto dollar, because it has a 100 per cent reserve. This means that all the money required to redeem the dollars issued is held in trust.<sup>36</sup>

By mid-1999 some 80 local businesses accepted Toronto dollars and there was T\$60,000 in circulation, meaning that CAN\$6000 has been put towards charities. For example, T\$500 was used to fund a dinner for street youth. Of the event, the *Toronto Sun* said:

*'Money can't buy happiness, but the Toronto Dollar can sure make people smile.'<sup>37</sup>*

During 2001, the scheme expanded by moving into another neighbourhood within Toronto.

### Salt Spring Island Dollars

Salt Spring Island lies off Vancouver Island and has a resident population of 10,000, whose numbers are boosted in the summer by the arrival of 250,000 visitors. Since 2001, the

Salt Spring Island Monetary Fund (Salt Spring IMF) has sold Salt Spring Island dollars in several denominations dollar for dollar.

The \$\$1, \$\$2 and \$\$5 notes (the \$\$ sign stands for the SS of Salt Spring) were issued first in September 2001, while the superb \$\$50 and \$\$100 notes, designed by well-known artists, were put into circulation in September 2002. The \$\$10 and \$\$20 notes feature patented, state-of-the-art anti-counterfeiting measures, making the Salt Spring currency the most secure in the world, far outdistancing the Canadian, US and euro bills in this respect. Some of the security features include embedded, invisible images such as maple leaves, orcas, birds and hearts that can be viewed only with an anti-counterfeiting detector. Originally, the notes were also given the expiry date of 31 December 2003.

The Salt Spring IMF, a non-profit society, is registered with the Province of British Columbia and was set up with the following mission in mind:

'The purposes of the Society are to design, issue and maintain a local currency for Salt Spring Island with the goal of raising funds for worthwhile community projects while promoting local commerce and goodwill.'<sup>38</sup>

Legally, Salt Spring Island dollars are considered 'gift certificates', as they meet all four of Revenue Canada's requirements in this respect. In effect, the notes promote Salt Spring Island and are similar to a business card. Additionally, they encourage on-island spending because they cannot be spent anywhere else.

The acceptance level by the business community stands at more than 95 per cent, and as an added incentive to buy local using the local currency, several island merchants have agreed to treat \$\$1 as CAN\$1.10 when goods are purchased. The local Chamber of Commerce, whose website is printed on the notes and whose support the scheme's committee first sought in the early planning stage, is also a keen supporter of the scheme. As Eric Booth, coordinator of the scheme, says:

*Next we approached the local Credit Union, and said the Chamber is in full support. They liked the idea and came on board. Next we approached the Canadian Imperial Bank of Commerce – hey, the Chamber and the Credit Union are on board. Next the Bank of Montreal, then the largest grocery store, followed by the second largest, and so on, building support all along the way.'*<sup>39</sup>

The bills are accepted on a par with the Canadian dollar by the local Island Savings Credit Union, the Bank of Montreal and the Canadian Imperial Bank of Commerce (CIBC). To achieve this, the fund's committee arranged for a reserve fund of Canadian dollars to be deposited with the credit union and each bank, and asked them to include Salt Spring dollars with Canadian dollars when someone comes in to make a deposit. In such an instance the teller debits the reserve account for the Salt Spring dollar amount and credits the depositor's account with Canadian dollars. So the Salt Spring currency is redeemable and depositable at all three financial institutions on the island, and it can also be purchased at the Island Savings Credit Union in \$50 bundles. Additionally, the Chamber of Commerce issues the notes from its building and the scheme sells them through its website.<sup>40</sup>

For a time, an ATM machine was set up on the island to dispense the notes, but it was removed when it was discovered that only tourists used the machine. Although the system was working perfectly, all the locals were getting their Salt Spring dollars with no surcharge from a number of sources, and the cost of the ATM did not cover the money made from it.

As envisaged in its mission statement, t

he scheme is now starting to raise significant funds for the community, since all the bills that go into collections and off island as souvenirs are unlikely to be redeemed. Eight months after the scheme was established, a trust fund of CAN\$20,000 had been built up for community use. The disbursement committee of nine people was publicly announced in the project's local paper and on its website. However, things have since changed, in that instead of giving away funds the Salt Spring IMF now retains assets by investing in the community, thereby ensuring that dollars sold continue to be backed 100 per cent. Investments can include such things as loans for affordable housing, money to purchase vehicles for a car co-operative, or land that can be leased for organic farming.<sup>41</sup>

By November 2003 the Salt Spring IMF had decided to ignore the original expiry dates, promising to continue to honour all of the older bills. They were able to do this because they had a recorded history of how many bills had been redeemed. In addition, they issued new \$1, \$2 and \$5 bills without expiry dates.

Also in 2003, the Salt Spring IMF underwent an independent audit and came out clean. The results of this are posted on their website.<sup>42</sup>

Additionally, the scheme received the green light from the Bank of Canada and the

British Columbia Financial Institutions Commission (FICOM), and applied for charitable status with the Canadian Customs and Revenue Agency.

While the currency has proved particularly popular with tourists, who take the notes away with them as souvenirs, it has not been accepted with quite the same level of enthusiasm by all locals. As a result, in late 2003 the scheme received the services of a full-time employee for a year to promote the project locally, funded federally through a Community Economic Development project. As Eric Booth wrote in November 2003, 'At this point we are under the radar, so to speak, and slowly gaining ground. While over 95 per cent of merchants on the island (of about 200) accept the dollars, and the tourists love them, our greatest challenge is to get the locals to use them – which is why the promotion should help.'<sup>43</sup>

Early in 2004, the Salt Spring IMF gave its first \$10,000 interest-free loan to a non-profit housing society. In addition, the local radio society was looking to the Salt Spring IMF for initial funding to establish the island's first radio station. Included in its business plan was the issuance of bonds through the Salt Spring IMF. In October 2004, Eric Booth said:

*We are continuing our pursuit to evolve into a true regional currency, having passed many significant hurdles along the way. We've looked at many of the other alternative currency projects worldwide, and to our knowledge, none have reached our near 100 per cent 'merchant acceptance level', which is the primary key to the success of any system. We are now in the preliminary planning of a number of new additions to our project, so, keep an eye on Salt Spring dollars.'*<sup>44</sup>

### Barter Clubs in Argentina

In the Introduction to this book I touched on the collapse of the Argentinian economy in 2001, which reduced the country to chaos. In 1991, after several years of severe inflation, the Argentinian peso was pegged to the US dollar. By 1995, with its exports now uncompetitively priced, the country's overseas debt had increased and the unprecedented deep economic crisis began, culminating in late 2001. Between July and August 2001 there was a run on bank deposits, and by November 2001 the government had imposed a deposit freeze, which led to people rioting in the streets when they were unable to withdraw their savings.

The crisis of insolvency saw a succession of five presidents in two weeks. In January 2002, the country finally de-linked from the US dollar and its currency plummeted. Throughout 2002 the economy shrank by 11 per cent, and unemployment and underemployment rose to 50 per cent, reducing many to conditions of extreme poverty in what was once the seventh-largest economy in the world.<sup>45</sup>



Deep budget cuts were necessary, and by August 2003 the IMF had almost total control. In this former shining star of structural adjustment, both poor and middle-class people were now suffering, and many had emigrated. In Buenos Aires, once called the 'Paris of South America', some 19,000 people dropped below the poverty line each day. In August 2003, having been on a par with the US dollar in 1991, the Argentinian peso was worth just 28¢, inflation had returned and national debt was 150 per cent of GDP.<sup>46</sup>

Back in 1995, the high unemployment and scarcity of national currency had led to the establishment of *trueque* clubs (*trueque* is Spanish for 'barter') under the guidance of three young professionals in Buenos Aires. The clubs rose in prominence such that one in three economically active Argentinians – equivalent to 6 million people – was using them by the time they were at the height of their success in July 2002.<sup>47</sup> Participants in the many isolated small groups and some huge groups included doctors, dentists and psychologists. But then use of the clubs fell away within a month to almost nothing. So what happened? The lesson behind this is a salutary one for all those who designing currencies.

The barter clubs used créditos as their currency to supplement the national currency. Members of clubs (called 'prosumers', a cross between 'consumers' and 'producers') brought goods to market and bartered them and services with the créditos. There was a small club entry fee to cover costs, and the locations and schedules of the markets were advertised on the Internet. All transactions had to be paid for in créditos – no pesos or dollars were permitted, because that would have violated VAT tax laws. Each club had different notes and there was a strong desire to accept each others' notes.

According to the *New York Times*, by May 2001 more than 450 clubs had been founded in 20 of the country's 24 provinces and an estimated 500,000 Argentinians then bartered regularly.<sup>48</sup> At the time, about US\$7 million worth of scrip, barcoded to guard against counterfeiting, was in circulation. The *trueque* markets reached the stage where, according to author Tom Greco, who visited Argentina twice at the time the clubs were running, 800 million pesos, (the equivalent of US\$800 million) were exchanged annually in the form of various locally created créditos.<sup>49</sup>

While

the *trueque* clubs had originally started without government support, in 2000 the Argentinian government recognised that they were acting as a safety valve, relieving poverty and supplementing family incomes, and so signed an agreement with Red Global De Trueque, the organisation running the clubs, pledging its support and

partnership. This trend has spread to similar *trueque* schemes in Bolivia, Paraguay, Colombia, Ecuador, El Salvador, Peru, Uruguay, Chile and even Spain.

However, despite this initial huge success, things started to go wrong from July 2002. As Heloisa Primavera, sociologist and currency activist, told a Steyerberg money conference a year later, the scheme had too many activists and too few loyal managers. When the Argentinian Ministry of Economics agreed to help develop the system all over the country, it approached the task from the mentality of scarcity, so that mistakes were made and inflation set in. There were two major groupings of clubs in operation, but only one group was recognised as legitimate to train people to join the system. So a 'franchising' operation started, with the high risk of concentration of power.<sup>50</sup>

According to Lisa Garringues, 'Most Argentines say they [the barter clubs] ceased to function because of corruption, counterfeiting of barter "credits" and because many people simply ran out of items to trade.'<sup>51</sup> Jorge Marchini, another commentator, is quoted as saying, 'The counterfeiting undermined the system's credibility, but the lack of basic products, along with inflation – which was almost nine times the level of that in the formal economy – and the inability to obtain vouchers were the main reasons for the system's collapse.'<sup>52</sup> Whatever the underlying causes, the failure of the clubs had serious consequences, since so many relied on the créditos for their everyday needs.

The lessons learned from the Argentinian experiment are still being distilled. Nevertheless, there are some very strong preliminary assessments. First, closed systems are necessary, where people either stay in the group or surrender their créditos every time they meet in the weekly markets. Second, good governance and transparency are essential, as is skilled mediation. Third, when groups become too large the notes are easy prey for counterfeiters. And, finally, centralised administration is dangerous when it has no social control.

Fundamental to any community currency enterprise is the need to establish the values that underpin its objectives, right from the outset, and thorough preparation prior to launching is also necessary.

A law allowing Argentinian provinces to create their own currencies was passed in December 2002.

By June 2003, insurance premiums and new farm pick-ups were being bought with grain. Soy was the standard form of currency used, although sunflower, wheat and corn were also equally acceptable. About 45 per cent of businesses had no relationship with a bank at this time,<sup>53</sup> and insurance companies were building silos for grain storage instead.<sup>54</sup>

This small-scale Mexican currency has been in existence since 1996. It was started by ecologists, including architect Luis Lopezllera, who had previously founded a co-operative development centre in the neighbourhood of Colonia Tlaxpana in Mexico City and who had travelled to France, the US and Canada to study local currencies. The tlaloc was named after an Aztec rain god.<sup>55</sup>

The currency is a mix of LETS and time dollars, but with printed money. The *teguio*, a currency for smaller transactions, supplements the tlaloc and is worth one Mexican peso. One tlaloc is the equivalent of one hour of work, 25 pesos or US\$3. More valuable services attract higher numbers of tlalocs per hour, but the ratio can only be as high as 4 tlalocs per hour. Six denominations of notes are issued, each with ten spaces on the back for signatures.

A directory is printed and members begin to trade. Instead of phoning a central office to record every transaction on a computer, as with LETS, the system uses currency notes issued by a member. On joining, each new member receives 15 tlaloc notes for trading. During a transaction, the seller then signs 'accepted' and the buyer signs 'spent' in the boxes provided on the back of the money. Transactions can also take place in a combination of national currency and tlalocs. Eventually, when all ten slots have been filled in, the note is returned to the central office, where the original issuer is credited and the final purchaser is debited.

The tlaloc system is therefore a low-tech mutual credit system using notes, and works without the nuisance of having to phone a central office for every transaction.

### Bia Kud Chum

Between March and June 2000, before it was quashed by the country's central bank, rural Thailand had a very sophisticated and successful local currency. At this time the information age had started its ascent and the positive side of globalisation was really becoming apparent: the *bia* system was created with Dutch, Canadian and Mexican complementary currency expertise, and funded by a Japanese non-profit organisation. The unit of currency was named after the *bia*, a local shell, and the region of Kud Chum, an area ten hours' drive from Bangkok in northeast Thailand.

After much planning by the international group, *bia* notes were issued in several denominations to unit members of the Bia Bank. Unit members (a unit could consist of a whole group of co-responsible individuals, usually a household) could borrow up to 500 *bia* interest-free from the bank and use it for trading in markets. The loan then had to be repaid before more could be withdrawn. The notes were decorated with drawings of

traditional rice planting and harvesting scenes, and contained a spirit poem written in the local dialect. The system was designed to replace the Thai baht for local purchases, and it was planned that the bank would eventually be used for import substitution, microcredits, and the funding of health and education.

Thus the system was a combination of a mutual credit system with a fiat currency, much like the Mexican tlaloc or Argentinian créditos.

In abolishing the bia Kud Chum, the Bank of Thailand justified its action by saying that the currency violated the right of the central bank to issue the country's currency. It also claimed that the use of the word 'bank' violated a commercial banking act. After researching the event, Jeff Powell and Menno Salverda wrote:

*At such an early and fragile stage in its development, Thailand's first community currency system can hardly be deemed a threat to the powers of the State and assorted vested interests. More production and exchange at a local level means that community members might buy roselle juice instead of Coke, or produce organic fertiliser instead of buying the 15-15-15 chemical fertiliser of the Charoen Pokphand Corporation. And maybe, there are some people in Thailand and elsewhere who don't like the idea of village people doing just that.<sup>56</sup>*

There is no doubt in my mind that this the bia Kud Chum was a very successful formula and, had it succeeded, that many others would have emulated it.

## Guernsey Pound

One of the most dramatic illustrations of the use of healthy money is on Guernsey, one of the Channel Islands off the coast of France. Through a quirk of history, Guernsey had been accorded the sovereign right to issue its own currency in 1690; it chose to exercise that right in 1816.<sup>57</sup> Before 1816 the island had used only British pounds issued by British banks. But during a currency crisis it created its own interest-free money by spending it into existence. It is now a prosperous island, with low taxes (20 per cent income tax for individuals and companies), zero unemployment and low inflation.

Soon after the Napoleonic wars of the early 19th century, Guernsey was faced with a major problem. Its infrastructure was falling apart and, although it had the potential to attract tourists, the island had no public facilities. It was in a state of extreme poverty, with the sea encroaching on the land because of the bad state of its dykes. Its roads were unsealed and there was high unemployment. At the time, Guernsey had £19,000 of public debt, the annual interest on which came to £2400, to be paid from an income of just £3000 per year. The £600 left over was insufficient to build any infrastructure. The island didn't want to borrow the necessary £10,000 to improve its situation, and there was

no scope for further taxation, so it set up a committee to work out how to find the money for public projects. After a year's deliberation, the committee decided to issue notes free of interest and spend them into circulation. The first project, a public market, was built four years later, cost £4500 and remains an excellent building to this day. Subsequently, schools and sea defences were built by issuing more interest-free money.

This all came about because through a quirk of history Guernsey had been accorded the sovereign right to issue its own money in 1690. Since 1816, the amount of locally issued money has increased, although a compromise was reached with the banks to limit the issue. Two currencies now exist side by side in Guernsey, the island currency and the British pound; in 1990, there were G£6.5 million of interest-free state-issued notes.<sup>58</sup> And today, the island has no unemployment, no public debt and a surplus of public funds.<sup>59</sup>

### The Hamilton Rates Voucher Scheme

The closest New Zealand came to having a local fiat currency was in the late 1970s, when the mayor of Hamilton, Bruce Beetham, proposed a rates voucher scheme. At the time, Beetham was leader of the Social Credit Party and he was an MP from 1975 to 1984. He had studied the history of currencies in New Zealand and overseas, so, as mayor, he proposed that Hamilton City Council issue rates vouchers to pay those employees and contractors who agreed to the scheme, instead of paying them in New Zealand dollars. The idea was that as the employees spent their rates vouchers within the community, the vouchers would effectively become a legal means of exchange within Hamilton. Beetham suggested that vouchers would be printed up to the value of one-third of the total rates collected.

Beetham made his case to council in a memorandum in December 1976, arguing that the scheme would relieve ratepayers from having to pay overdraft charges and interest rates of 9.5 per cent on the council's loans. He likened his proposed rates vouchers to petrol vouchers and milk tokens, and undertook considerable promotion of his suggestion through the media.

However, when Beetham finally sent his proposal to the head of the Audit Department, the Minister of Local Government, the city solicitor, the Secretary to the Treasury and the Governor of the Reserve Bank, the replies were not encouraging: 'The Reserve Bank Act gives the Bank the sole authority to issue bank notes in New Zealand, and it is our view that the issue of vouchers such as you describe would be in contravention,' wrote the Governor of the Reserve Bank.<sup>60</sup>

The city solicitor put the biggest dampener on the scheme. He came up with many reasons why the scheme would not be legal, citing among others the Banking Act 1908, the Municipal Corporations Act 1954 and the Local Authorities Loans Act 1956.<sup>61</sup>

Nevertheless, by the time the proposal was finally abandoned it had gained considerable popularity. A local radio station discovered that 36 per cent of the population of Hamilton understood the proposed scheme, and of these 59 per cent were in favour. As this currency had promised a reduction of rates, during the period of discussion the level of support continued to grow.<sup>62</sup> If a similar scheme was proposed today, its supporters would be able to draw on experiences elsewhere and argue that such a local currency would create employment, avoid interest payments and support job-rich local business.

An improvement on Beetham's scheme would have been to incorporate Silvio Gesell's principle of a negative interest rate, a 1 per cent charge levied each month to revalidate the money (see Chapter 12). Beetham actually proposed the opposite of this for his scheme, suggesting that when people accumulated rates vouchers in the proposed Municipal Reserve Bank, they would be paid interest. Thus the Hamilton scheme would have failed even if it had been given approval, because Beetham's mechanism would have been an incentive to keep the money out of circulation, thereby reducing its potential for strengthening the local economy and eliminating indebtedness.

Following on from the implementation of legislation in 2002 allowing for the devolution of some powers to local government, and the campaign by the Democrats to persuade local politicians to ask the Reserve Bank to issue interest-free loans to councils for essential infrastructure, some form of local authority currency could become a reality in New Zealand in the future. It would, however, require a legislation change from central government, revoking the monopoly held by the Reserve Bank to issue money. If such a scheme did go ahead, in order to avoid inflation local government should issue rates vouchers equivalent in value to the amount of rates to be levied (Beetham's proposal in this respect was very conservative).<sup>63</sup>

#### Internet Currencies like Beenz and Flooz

The Internet is a community that is potentially able to give value to an Internet currency. The so-called 'netizens' of this community are used to sharing, and e-commerce is thriving, so why not an e-currency? In fact, the quest for a global e-currency is already on, although at least two schemes have failed. Charlie Cohen, founder of Beenz in March 1998, believed that the Internet was like a new country, where people played, shopped and talked. E-tailers bought Beenz with US dollars and pumped the new currency into the virtual world as rewards to online shoppers or as gifts to websurfers. For a while the

currency flourished, and had 265 employees in 15 offices worldwide, but like many loyalty reward schemes it failed, in August 2001. German electronic money consultant Hugo Godschalk believes it is fairly common for reward vouchers not to be redeemed, as many airlines change their schemes before this can happen.<sup>64</sup>

The e-currency's lesser known counterpart Flooz, which had Hollywood star Whoopee Goldberg as its spokeswoman and also aimed to replace credit cards with an e-currency, also died that month. According to an editorial by the Institute for Prospective Technological Studies, 'Business model failures as well as the failure to build trust, fuelled by a number of notorious breaches of security and a general explosion in fraud, are among the main reasons for their [web currencies] collapse.'<sup>65</sup>

From the examples of early prototypes of community currencies discussed here, it is clear that a huge range of user-issued currencies has been tried out, some succeeding while others have failed. To learn from them, it is important to address the factors for success as well as failure. The big ones – Beenz, Flooz and the Argentinian barter clubs – failed very quickly because with size came media attention. People lost faith in them almost overnight when there was adverse publicity. Because money is an agreement within a community to use something as a means of exchange, that agreement can quickly be broken. When people believe that others will not accept the currency, the loss of faith can be very rapid indeed. To be successful, a currency must therefore continue to be trusted and be seen to be trusted by others.

Other systems, like green dollars, have slowly subsided because they were so small the media was not particularly interested in them. Ithaca HOURs has continued since 1991, largely due to the persistence and skill of its founder, Paul Glover, who is still involved in a new health venture within the scheme. The Hamilton rates voucher scheme in New Zealand never even got off the ground because, no matter how persuasive or logical he might have been, one reforming mayor was insufficient to propel it forward in the face of the combined force of Auditor General, the council's solicitor, the Minister of Local Government and the Reserve Bank. And a few schemes manage to continue because they are basically sound, like the Salt Spring Island Monetary Fund.

Each of the currencies discussed in this chapter has served its own purpose and caused people to behave differently than when using the scarce national currency. In Chapter 12 we will see that when a currency is designed for fast circulation, it starts to make an impact on the radar of the whole economy. Similarly, time dollar schemes affect whole communities for the better. With a combination of user-issued currencies we will therefore see positive changes in all aspects of society.

In the next chapter on commercial barter we will see a contrast with the more informal green dollar systems discussed here.

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11

## Commercial Trade Barter

*A trade exchange is a business to business (b2b) marketplace to assist members in gaining new customers where transactions are facilitated electronically via the internet, selected swipe card facilities and telephone e-commerce, or by transaction vouchers similar to those used with a credit card.*

– Denis Orme, CEO of Bartercard New Zealand<sup>1</sup>

Barter is often regarded as crude or old-fashioned, because the use of money superseded it. But the advent of computers changed all that. Commercial trade barter companies first started up in the US during the 1970s and spread to Australia in the early 1980s. In addition, a lot of two-way bartering is carried out between the divisions of corporates. According to the International Reciprocal Trade Association, 40 per cent of the world's economy consists of barter, and the commercial barter industry helps businesses turn over US\$7.5 billion annually, a figure that is growing at 8 per cent per year.<sup>2</sup> New Zealand's annual barter exchange is worth NZ\$600 million.<sup>3</sup> Reputable commercial trade companies are usually members of the International Reciprocal Trade Association (IRTA), which fosters the interests of this growing industry and puts out the monthly magazine *Barter News*.

Members can effectively get interest free credit from the membership circle. Account Managers act as brokers, ensuring that money circulates, and that members are educated to use the scheme fully.

Many complementary currency enthusiasts view commercial barter as an alien species because it charges commission for transactions. When I mentioned Bartercard to one green dollar activist, for example, she said disapprovingly, 'You are talking about a business venture and a community-based scheme'. However, I believe that the business acumen brought to commercial barter has many lessons for those administering or setting up complementary currencies.

This chapter takes a look at some of the trade barter systems that currently operate and have been tried out in the past, focusing on how they work and the reasons for their success.

### Wirtschaftsring (WIR.)

The longest-running trade barter scheme, WIR (short for *Wirtschaftsring*, which means 'business circle'), was introduced in Switzerland during the Depression of the 1930s. It was set up by the far-sighted reformers Werner Zimmermann and Paul

Enz, who were supporters of the free-money theory of Silvio Gesell (see Chapter 12). The two made a trip to study barter exchanges in Norway and Denmark, and then adapted the schemes they saw there to suit the conditions of Zurich. Green economist Richard Douthwaite has described the system in many his writings.<sup>4</sup>

Following its launch in October 1934, the scheme grew to the point where, in early 1935, some 1000 members were actively exchanging goods and services and running trade shows.<sup>5</sup> Very soon after, however, they faced their first challenge – massive hostility from the press. Despite this, members stood by the group and its ideology, and continued to do so through 1939 and 1940, which also proved very difficult as the standards for allowing credit were often far too lenient. The audit office investigated the situation, which resulted in WIR being brought under Swiss banking law and the introduction of new expertise. In spite of these hard times, WIR managed to cut costs and raise more capital through subscriptions. Following a decline in membership during World War II, WIR revived again through the 1950s and 1960s, only to experience another challenge.

In 1973 there was an economic downturn and the WIR system suffered a drop in the volume of exchanges. WIR operators attempted to boost the volume by lowering the standards for credit, so that too many interest-free loans were consequently made to its members. This resulted in too much WIR currency in circulation, and so its value decreased and members couldn't spend it. This, in turn, resulted in a second problem: the discount trade. Owners of large amounts of currency, unable to spend it in the system, began offering it for sale for cash, and so a black market on WIR currency developed. Discount trading occurred using WIR as credits. This almost destroyed the system. However, WIR survived because of the foresight, integrity and determination of a small group of people. They made it against the rules to buy or sell WIR for cash, they devalued the WIR by 95 per cent, and they brought about a change of management.<sup>6</sup>

Today, the farmers, civil servants, lawyers, chimney sweeps, architects and white-collar workers who become members of WIR have to follow a strict entry procedure. First, potential members must offer some collateral – usually in the form of a second mortgage on their house or business premises – to back an interest-free loan they may get from the system. Second, they apply for a loan to the WIR Credit Approval Committee, which often asks for a credit check from an agency, just as if the member wanted a loan from a bank. Once the potential members have passed these tests, they can start trading with other members using WIR money. New participants get a cheque book, a charge card and a large catalogue listing the other participants. The interest-free working capital used enables members to bypass the banks. According to Richard Douthwaite, in 1993 there were 60,000 account holders, turning over 2,521

million Swiss francs a year.<sup>7</sup>

From 1995, it has been possible to make combined payments of cash and WIR using a single charge card on a Mondex system. Mondex is an electronic cash system that provides a direct equivalent of cash. It operates on a smart card – a plastic card that looks like an ordinary debit or credit card and stores information on a microchip. This e-cash facility enables an instant transfer of value between merchants and customers. The microchip on the card contains a ‘purse’ in which Mondex value is held electronically. The purse is divided into five separate pockets, allowing up to five different currencies to be held on the card at any one time.<sup>8</sup>

Prices are often denominated in a mixture of WIR francs and Swiss francs, but the WIR francs cannot be converted to cash, or given to non-members. Even when someone leaves the organisation, he or she can’t take their trade francs with them; WIR is a closed ring system.

Richard Douthwaite and Dan Wagman believe that the success of the WIR system, when compared with similar systems that have disappeared without trace, is partly attributable to its insistence on collateral.<sup>9</sup> A critic of WIR, Hendrik Bor, however, claims WIR has succeeded mainly because while critics of WIR claim that it succeeds mainly because of the discipline of the Swiss. In Denmark, meanwhile, a WIR circle was closed by the government following pressure from the banks.<sup>10</sup>

## ITEX

### The ITEX Retail Trade Exchange

ITEX was founded in Portland, Oregon, in 1982. An office was set up in New Zealand during the 1990s, where it grew steadily until July 2000, when it sold out to Bartercard New Zealand. At that time, *The Dominion* reported that ITEX had 550 businesses as members in New Zealand and that Bartercard had 4000, generating between them more than NZ\$150 million in trade dollar turnover a year.<sup>11</sup> Today, ITEX continues to operate in the US and Canada, with 14,000 members.<sup>12</sup>

With the ITEX system, instead of purchasing regular expenditure items such as advertising, equipment, office products, car repairs, remodelling, furnishings, travel, business meals, printing and so on, member companies trade for them, using their products and services, excess inventory or capacity as payment.

As with WIR, businesses are registered in a directory, which members use to find new trading partners. In doing so they create extra business for themselves and at the same time save national currency for when they need it.

Businesses are charged a joining fee, although this can be negotiated down. Each new member is then given an interest-free overdraft and can begin trading immediately. For each transaction there is a charge for both buyer and seller of 5 per cent commission in the national currency (cash), plus 1 per cent in trade dollars. Unlike Bartercard, which insists that all transactions are carried out in trade dollars, with ITEX some deals can be done in a mix of trade dollars and cash. Members can trade internationally; some do this through the Internet, while others go through an ITEX international trade coordinator.

New members are often signed up when existing participants want to spend money but there is no one in the directory with goods they want to buy. In an interview in 1999, Ross Vessey, founder of New Zealand's ITEX brokerage in Wellington in 1997, said, 'I wrote to my members saying if there are people you want to do business with, just tell me and I'll sign them up. I do a lot of brokering. I put deals together. No bank does that. I know all the members.'<sup>13</sup>

In trade barter there is no issue with tax avoidance. Income tax is paid as though the income was in the national currency, while a goods and service tax is paid and claimed in the same way. On this subject, Ross Vessey had a suggestion for governments: 'If the Inland Revenue Department recognises trade dollars as income, it would be logical that they accept trade dollars as payment for tax.'<sup>14</sup>

Vessey said that the characteristics of good traders are as follows:

- They must have a healthy cash flow. Trade barter isn't a parachute for a failing business.
- They must have available excess capacity in some form – spare rooms for rent, spare tables at a restaurant, spare appointments, or excess stock or time.
- They must operate on a healthy margin. For this reason, no computer businesses can join – their margins are too low.
- They must have a positive attitude towards trade.
- All goods must be sold at retail price. As was discovered by the WIR scheme (see page 000), barter schemes don't work if there is discounting.

In New Zealand, ITEX was able to lend one of its best members NZ\$10,000 for the extension of a house, money that was, of course, interest-free, although the member's car was used as security. When the house extension was complete, the member was able to bring in new clients and soon managed to repay her loan. The construction company that worked on her extension then needed to spend its money, so ITEX brought a building supply company and a crane hire firm into the circle.

Another member bought coffee for trade dollars and sold it for cash, thus converting trade dollars to national currency every day. Members could also spend their trade dollars at the local radio station on advertising, a move that brought in cash business to their companies.

ITEX is still operating today. In 2002, the company's website said that it represented:

*... over 25,000 businesses in over 80 offices in the United States and Canada, and foreign affiliates in 15 other countries; totalling over 100,000 trading partners. ITEX generated over US\$200 million in trade transactions per year in 2001, with a growth rate of approximately 14 per cent per year. ITEX has grown enormously since its inception in 1982 and throughout that time has continually maintained its status of the world's leading trade and barter company.<sup>15</sup>*

#### Bartercard

Bartercard was established in Queensland, Australia, in 1991, moving to New Zealand in the same year.

When I first discovered what was happening with Bartercard in New Zealand I was astonished. Here was a group working quietly to revolutionise the way we create money and support locally owned businesses, and nobody had really noticed. In 1998 I interviewed Roy Netzer, the then Manager of Bartercard in Christchurch, and at the time this branch carried out up to NZ\$1.5 million worth of trade per month. By 2003 the figure had risen to an impressive NZ\$3 million per month.<sup>16</sup>

#### How it Works

As with ITEX, Bartercard charges a commission for seller and buyer, made up of the national currency and trade dollars. Originally, the commission was 5 per cent in the national currency and 1 per cent in trade dollars, although the national currency proportion was later increased to 5.5 per cent. And as with ITEX, Bartercard makes interest-free loans as long as they are secured by the client in some way – cars, houses or businesses are typically used as collateral. Trade days are held every six months, and major fairs are organised every two years.



A significant innovation in New Zealand has been the introduction of EFTPOS for members' exchanges. E-commerce is also being introduced and there is an online auction at [www.bartercard.co.nz](http://www.bartercard.co.nz).

In an interview in March 2000, the then Managing Director of Bartercard New Zealand, Ian Jones, said that the operation carried out more trade per member than any other country.<sup>17</sup> In December 2003, Bartercard New Zealand member companies turned over NZ\$21 million at an average of NZ\$3864 per member. The biggest interest-free loan Jones could recall was NZ\$300,000, part of a NZ\$1 million property development project. 'We grow every month, and in recessionary months we probably do better because members want to conserve cash,' said Jones.

The businesses Bartercard New Zealand typically accept as members are those with a turnover of at least NZ\$200,000 a year. Some 95 per cent of the exchange's members are small- to medium-sized businesses, employing fewer than 20 staff. Roy Netzer, who succeeded Ian Jones as Managing Director of Bartercard New Zealand, said in an interview in 2000[?], 'By circulating the money around these businesses, we will make them all healthier and protect them from the biting economy outside.'<sup>18</sup>

Members can use Bartercard in other countries where the system is in place, although the practice is not common – Bartercard New Zealand, for example, has just a few deals with Australia and Hong Kong. The major international trade that does take place is in tourism, because members can easily use their Bartercard for accommodation and meals.

The vast majority of members accept that paying commission is a necessity because without it they wouldn't have the administrative infrastructure and staff to support them.

Wellington Bartercard enthusiast Alvin Ralph, an importer of a wide variety of Oriental goods, says that you can't enter the scheme half-heartedly. In 2000 he did up to a third of his business on Bartercard, and in an interview said, 'It gives us extra business from people who wouldn't normally buy from us. All we have to do is to find ways of spending it. Everything we do we think whether we can do it on Bartercard. If I get too much in debit the staff helps me find new sales. It's tremendous.'<sup>19</sup>

### Staff Accounts

Occasionally it works out that individuals have accounts with Bartercard. For example, a radio station selling advertising will normally pay its advertising representatives their commission in the national currency, but if the company is a member of Bartercard it may want to pay the commission in trade dollars. The reps will then have an account and a card with Bartercard, which they can use to buy goods and services with participating businesses. Bartercard calls this a 'staff account'.

### Membership Criteria

Unlike in green dollar schemes, Bartercard doesn't automatically accept every business. There has to be sufficient demand for their services, as the Bartercard economy is a small one. This practice ensures that there are only sufficient members within an occupational category to cover needs.

For the same reasons, Bartercard doesn't accept specialists, and nor does it accept members who are too vulnerable financially. Since all new members receive an interest-free loan on acceptance, it is a risk for the whole system if any can't pay it back. Nor can Bartercard give too out much credit, because if a business goes broke the whole system loses money. The company likens its security arrangements to the credit check that credit card companies conduct.

### Help for Members

Bartercard's business support is essential to its success, as Roy Netzer said:

*We employ trade coordinators (these later were called account managers) to educate the members and help the cash flow. There is a ratio of one staff member per 100 members. ... It has proven to be the right thing to do because we find people need to be trained into new habits. Barter is not something people are used to; the ways they can use it are not obvious to them. It is a concept, a tool, and it works differently for every company. For some it is a capital expenditure; for others hidden; for others personal. We work closely with our members to expose them to the full potential of what we can do for their business, bring them anything from 5 per cent to 15 per cent extra business and make a direct impact on their bottom line of anything between 20 per cent and 60 per cent.*

Very few Bartercard members leave the schemes – in New Zealand, for example, fewer than 0.7 per cent resign each quarter through dissatisfaction.<sup>20</sup>

The company helps members that are facing financial difficulties, sometimes

granting temporary credit where traditional banks refuse. Roy Netzer explained this with an example:

*In winter, a nursery was in trouble with creditors demanding money within 90 days. Luckily, they had an account manager with strong business acumen. We then approved a \$10,000 line of trade dollars credit, went to the creditors and told them that the company was in crisis, saying 'Hey guys, either you let this debt go and lose anyway, or you take the money in trade dollars.' Seven of the ten we approached said yes. Most of the creditors became members, some just temporarily, but most joined up eventually. The nursery's business picked up in spring and by March was 50 per cent better off than before the crisis. If it wasn't for us they wouldn't be in operation.*

### Potential for Rejuvenation of Small Towns

When I spoke to him in 2000, former Bartercard New Zealand Managing Director Ian Jones described with enthusiasm the potential of Bartercard for the rejuvenation of small towns and rural areas. 'Take the town of Waihi. They may have a whole heap of businesses slowly haemorrhaging and going broke. We have businesses in Auckland who could buy from them in trade dollars and we could broker this.'

Jones used the example of a signwriter in Auckland who might need work boots. He could either buy them for NZ\$100 in Takapuna for cash, or phone a Waihi shop and pay, say, T\$100 for their boots. He could then do T\$100 worth of signwriting costing T\$40. That way he would save himself T\$60. Both the signwriter and the Waihi shop would win, and Waihi's economy would get a little boost. Multiply this a few times and the town could revive and pick up business from areas it would usually never deal with. Using another example, Jones said that a farmer needing a pair of boots could happily trade them for a couple of sheep, which he has plenty of. 'We could facilitate these deals and auction off the sheep when we have enough. We have a system for tracking every transaction,' Jones said.

### Relationships with Government

Former Bartercard New Zealand Managing Director Ian Jones also said in 2000, 'Councils have a responsibility to encourage business to their regions, and if council could underwrite 50 per cent of the risk we would do the rest.' He said councils should accept Bartercard trade dollars in payment for rates, and was

also critical of the IRD's inflexibility about accepting trade dollars for tax. Instead of bankrupting businesses that can't pay their taxes, he said, the IRD should be open to

negotiation. If the business in question had some surplus tyres, for instance, Bartercard could buy them for trade dollars and sell them to other members. The tyre retailer could then pay his or her tax bill in trade dollars, thereby saving the business and the jobs of the people employed there, and protecting the local economy. The IRD could then use the trade dollars to pay for printing, accommodation or almost anything else it needs.

Tax benefits with the Bartercard scheme are in the area of tax deferment rather than tax advantage. As Tony Dowse of Bartercard said in October 1994,

*The benefit for the customer is that they get to purchase using Trade Dollars instead of cash and therefore can either earn interest on the money they keep in their bank account or reduce interest cost by not using as much borrowings. The reason Bartercard promotes this is that members get to spend Trade Dollars instead of cash and also get the tax benefit in cash. It is simply a timing issue between trade and cash.<sup>21</sup>*

As an audited company, Bartercard needs to comply with all current company laws. The difficulty here is that the laws that apply to it were designed for financial rather than barter institutions. Bartercard is not an approved financial institution and has no licence to lend or borrow money; all it has legally is the right to trade. In a way, Bartercard has to duplicate the banking system through its creation of trade dollars.

### Rules and Regulations

Bartercard has found that for the system to work both smoothly and fairly, a tight set of rules and regulations is essential. In a 2000[?] interview, Bartercard New Zealand Managing Director Roy Netzer said:

*Ideally what we are trying to do is help businesses help themselves. First, there is a need for mutual trust, but some people are not going to respect the debt on the other side of the transaction. Therefore a good infrastructure is a must. Bartercard has four pages of rules and regulations specifically covering all exchange needs and ensuring fairness. These are reviewed at least twice a year.*

Bartercard is particularly firm on the issue of fair trading. The company has a rule

requiring transactions to be 100 per cent barter, but found at one stage that there was a loosening of this. So it re-educated its members about the reason for the rule and insisted it was stuck to. (The exceptions are property deals, which require 30 per cent in barter, and the purchase of large items such as cars.) Netzer explained this:

*When you do an exchange that is half cash and half barter, what tends to happen is the member with the stronger personality wins. Two members approach a seller. A strong one says he won't buy unless he can pay 100 per cent trade. A weak one says he will pay 50 per cent trade, 50 per cent cash. The strong one wins. There is a hidden bargain market where the weak ones are always losing and getting frustrated. The only way to create a common denominator is to demand full trade dollars and none of you will bargain and get better off. Every month there are deals of millions of dollars which we turn down that could have been done if we had taken part trade dollars and part cash.*

## Tradecard

Trade exchanges cost a lot to run. If the barter companies don't insist on 100 per cent trade transactions, and if fees are 5.5 per cent in cash of the trade dollars for each seller and buyer, then they don't reap enough commission to pay for administration. In 2002, I interviewed Lyndsay Welsh of Tradecard, which by late 2003 had been bought out by Business Barter Exchange (BBX), an international business that requires 100 per cent trade transactions.<sup>22</sup>

As a rental car operator, Welsh had been a member of Bartercard, Tradebart and ITEX, then a manager of an ITEX branch for three years. At its start, Tradecard was a remarkable success, going from the fifth-biggest New Zealand trade barter company to the second biggest in three years. By May 2002, the company had 1000 members in 12 branches in New Zealand, doing NZ\$2 million worth of trade per month, and it was starting up branches in Brisbane and Melbourne.

Welsh said,

'Members were wanting to sell on half trade and buy on full trade, and it didn't work.'<sup>23</sup> So Tradecard developed a new system. Their platinum members were to trade only in trade dollars, and the NZ dollar commission on each deal was 4 per cent trade. Their gold members had to pay the first \$500 in trade dollars and then negotiate thereafter. Standard members had to pay a 6 per cent commission plus GST in NZ dollars, and had to pay the first \$200 of the transaction in trade dollars and then negotiate the rest thereafter. Where two members from different levels traded, they had to do so at the lower level. Welsh said of this scheme, 'I have always been a fan of trade/cash deals, part trade/part cash, and we have worked

out rules so that it doesn't disadvantage the members.'

### The Barataria Experiments

In this final example of commercial trade barter, I look at the partly successful Barataria Exchange Project that was launched in Europe in the 1990s to find a low-cost way to start a regional currency.<sup>24</sup> The project had four participants: Rural Forum Scotland, a long-established organisation that worked towards improving life in the Scottish countryside; Stichting Aktie Strohhalm, a well-established environmental group based in Utrecht, the Netherlands, which believes that flaws in the money system are responsible for a great deal of environmental destruction; La Kalles, a non-profit cultural association based in a poor suburb of Madrid; and Enterprise Connacht-Ulster, a group based in rural Ireland that was originally set up to campaign for a devolved system of regional government.

The four organisations successfully applied for research funds from the DGV (the European Commission's Social Affairs Directorate) to enable them to see whether local currency systems could help third-sector (that is, neither commercial nor state) organisations.

Each currency was to tie small- and medium-sized businesses, public institutions and socially oriented third-sector enterprises into local trade networks. While each of the participants was to come up with its own design, all four groups basically wanted to build a mutual credit system that would have much in common with the long-established Swiss WIR trading circle (see page 000) and with green dollars or LETS schemes (see page 000). The Irish currency units were called Roma, after ROscommon and MAyo, the two counties in which they were to circulate; in Scotland, the ScotBarter scheme's units were Scotia; the Madrid currency was called BICs; and the Amsterdam currency was called Amstelnet units. Only the Irish units took a printed form; the others were simply account entries.

All four groups put their currencies into circulation in the early summer of 1999, but no sooner had that happened than Rural Forum Scotland, the body that was channelling the EU money to the three other groups, went into liquidation with the loss of a lot of the funds. This caused the Irish, Spanish and Dutch schemes to close, while ScotBarter was only able to continue with help from a charitable trust. By August 2001, ScotBarter had 200 members and had carried out 162,000 Scotias worth of trading (a Scotia was on a par with the British pound). The main

participants of the scheme were small businesses, small third-sector organisations and LETS groups.

Despite the funding crisis, a limited number of Roma notes overprinted with the advertising of about 50 sponsoring firms was put into circulation in Ireland and recalled as planned, although subsequent issues were cancelled. Each sponsoring business underwrote its notes' value by guaranteeing to supply goods and services equal to the value of a note if it was presented at their premises. Thus, if a business decided to give 1000 Romas to a voluntary organisation it wanted to support, it ordered them from Enterprise Connacht-Ulster, which overprinted the quantity required with the name of the sponsoring business and its logo or advertising slogan, plus the name of the good cause to which the notes were being given. Enterprise Connacht-Ulster did not charge the sponsoring company for this service – instead, it relied on the fact that not all the notes would be presented at the end of their validity period for conversion into cash, and that the difference between the 1000 Irish punts paid by the company for the issue of the notes and the number that came back would be enough to cover the costs of operating the system.

The participating company then presented the notes to the voluntary organisation, which spent them on the goods and services it needed to continue its work. It could spend them with anyone prepared to accept them other than the firm that issued them. Each note had a maturity date of three months after the date of issue printed on it, after which, for one month only, it was convertible into cash. After that, the note had no value at all. Up until the maturity date, firms receiving the notes recirculated any they received either by giving them away to a good cause, paying them to their employees or suppliers, or passing them out to customers as change or in lieu of a credit note. The first and only issue of notes was for 1500 Irish punts, and thus raised the same amount for the local charities to which they were given. About 10 per cent of notes were not returned for conversion into cash after the three-month circulation period. Green economist Douthwaite wrote in November 2003: 'Although the trial of the concept was limited, it seems to have been very successful and several communities have expressed interest in starting their own Roma systems. Two seem likely to go ahead – one in Ireland, another in Wales.'<sup>252</sup>

The lessons learnt from commercial barter exchanges can be summarised as follows:

- Commercial barter exchanges are not designed to boost regional development. In fact, trade is carried out across countries and between nations.
- They aim to help small and medium-sized businesses survive in a monetary system designed to have winners and losers, and which favours mergers and

acquisitions and the concentration of wealth.

- Commercial barter exchange is a relatively new industry that has thrived because computers are now inexpensive and hence commonplace in business.
- The WIR 1973 experience (see page 000) was salutary. You can't have too many interest-free loans or you will flood the market with trade dollars and they will consequently devalue. In turn, this will tempt members into selling them for cash, which is something that needs to be regulated against.
- There is always a temptation for participants to use part trade, part cash in transactions. This must be addressed in the rules and strictly enforced.
- Those who don't make and enforce rules bring commercial barter into disrepute. Fly-by-night exchanges that have not learnt from the past do the industry a disavour.
- Education is needed to help members use the exchange. This must be provided by skilled brokers or account managers who help advertise for new business.
- Barter is useful in disposing of distressed goods and is a powerful tool in attracting new business. It uses excess production capacity, including empty restaurant tables, empty hotel and motel rooms, and empty offices.
- Full e-commerce facilities must be used, including eftphone swipe capabilities.
- There should be a debt reserve fund, sufficient to protect the integrity of the exchange.
- A barter exchange is really just like a bank holding the credit and debit balances of its members. It is a business-to-business marketplace.
- Commercial barter exchanges, unlike green dollar exchanges, aim to have a balanced mix of businesses with not too many participants in any one category.
- Members of barter exchanges pay income tax and GST just like any other business.
- Members shouldn't carry out more than 10–15 per cent of their business in barter.

## Notes

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2 Tim Hyland, 'Bartering Back Thanks to Tried and True Tactics', *News Journal*, 15 August 2004, accessible at [www.bniuma.com/release-08-15-04.html](http://www.bniuma.com/release-08-15-04.html).

3 Tony Dowse, Bartercard New Zealand, in an email to the author, 20 October 2004.

4 See in particular Richard Douthwaite, *Short Circuit: Strengthening Local Economies for Security in an Unstable World*, Totnes: Green Books and Dublin: Lilliput Press, 1996, and Richard Douthwaite and Dan Wagman, *Barataria: A Community Exchange Network for the Third System*, Utrecht: Strohalp, 1999.

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- 8 *Short Circuit* See [www.mondex.com](http://www.mondex.com).
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- 12 [www.itex.com](http://www.itex.com).
- 13 Ross Vessey, in a telephone interview with the author, 1999.
- 14 *Ibid*.
- 15 [www.ubarter.com](http://www.ubarter.com).
- 16 Source t.c.
- 17 Ian Jones, in an interview with the author, March 2000. All subsequent quotes from Ian Jones are taken from this source.
- 18 Roy Netzer, in an interview with the author, [date?]. All subsequent quotes from Roy Netzer are taken from this source.
- 19 Alvin Ralph, in a telephone interview with the author, 2000.
- 20 Tony Rowse, Bartercard New Zealand, in an email to the author, 20 October 2004.
- 21 *Ibid*.
- 22 The [www.ebbx.com](http://www.ebbx.com) website shows contains 380 pages of rules, including a section relating to 100% per cent trade deals.
- 23 Lyndsay Welsh, in an interwith the auhor, 14 May 2002. All subsequent quotes from LyndsayWelsh are taken from this source.
- 24 The information in this section was derived from Douthwaite, *The Ecology of Money*.
- 22 Email from Richard Douthwaite to the author, 10/11/ November 2003.

## 12 Complementary Currencies with a Circulation Incentive

*If a man has more yams than he wants, let him exchange some of them away for pork or gnatoo [tapa, or bark cloth]. Certainly money is much handier, and more convenient, but then, as it will not spoil by being kept, people will store it up, instead of sharing it out, as a chief ought to do. I understand now very well what it is that makes Papalangis [Europeans] so selfish – it is this money.*

– Chief Finau of Tonga, early 1800s<sup>1</sup>

Not all new economic theories are those proposed by economists: it took a businessman to think through the connection between deteriorating goods, the money used in their exchange, and the velocity of transactions. Because money meets needs wherever it goes, it is in everyone's interests to see that it flows readily. This chapter puts forward the revolutionary theories of the currency reformer Silvio Gesell (1862–1930), describes successful experiments that have applied his idea of a circulation incentive, and deals with most of the common objections to his theories. Examples of modern local currencies with a circulation incentive are described from Italy and Germany.

### Gesell's Theory

#### Silvio

Gesell was a successful German businessman living in Argentina during a period of economic crisis. He was distressed with the business cycles he witnessed, and came up with his idea of free money after reading about bracteates, the depreciating silver currency used between the 12th and 14th centuries in Europe.

Gesell then designed a currency that would circulate rapidly. Rather than relying on inflation to keep money moving, he reasoned that it would be better to have a booster factor built into the currency itself, and then to adjust the money supply to obtain stable prices. Gesell believed that a form of money that causes alternate expansion and contraction of the economy 'can only be an instrument of fraud and usury, and must be considered unserviceable'. The money supply in his view should not be regulated by adjusting interest rates, but instead by adding it to, or subtracting it from, circulation. He said that the only people who should be penalised financially are the holders of money.

From 1890 Gesell wrote extensively on currency reform. His ground-breaking book, *The Natural Economic Order*, set out his theories on land and money – not to mention some progressive ideas on the payment of mothers and on land taxes.<sup>2</sup>

In it, Gesell said the way money has traditionally been designed has favoured those who

are already in possession of it. Like the commodities it represents, money should be perishable, and it should be afflicted with the same disadvantages that afflict commodities.

### The Concept of Perishable Money

To explain why money should be considered perishable, Gesell wrote a parable of Robinson Crusoe on his desert island.

Crusoe planned to construct a canal around the island, a project that would take him three years. He carefully accumulated 'capital' of wheat, corn, buckskins and salted pigs to see him through that time. But then a shipwrecked sailor arrived and wanted to borrow clothing and food until his own fields yielded useful goods. The visitor warned that it was against his religion to pay interest, and that, given the opportunity, he could systematically persuade Robinson Crusoe that it was to his advantage to lend him the buckskin suits and the food without charging interest. The sailor pointed out that work would be needed to protect Crusoe's 'capital' against mildew, wind, drought, brittleness, light, dry rot, beetles, ants, moths, rust, decay and breakage. He wanted Crusoe to lend him some clothes and food at no interest, and said that after three years Crusoe would be paid back with new clothing and fresh food. Robinson Crusoe agreed.

This story thus makes clear the true nature of 'capital', and from it Gesell concluded that interest is charged because money has been wrongly separated from the goods it represents.

In the course of his research,

Gesell had been influenced by the French social reformer Pierre Proudhon (1809–65), who condemned privately appropriated ground rent as robbery and denounced interest on money as 'cancerous usury'.<sup>3</sup>

Gesell also maintained that Karl Marx had not discovered the real reason for social injustice because he had not recognised finance as a separate class from capital. In contrast to the theories of Marx, Gesell stated that the exploitation of human labour does not have its origins in the private ownership of the means of production, but rather in the area of distribution owing to structural defects in the monetary system.

Traditional currency works in the service of those who hold it because it is indestructible, having quite the opposite properties of the goods it represents. Instead, Gesell believed it should be perishable like eggs and therefore reflect the real world.

*Commodities in general, straw, petrol, guano and the rest can be safely exchanged only when everyone is indifferent as to whether he possesses money or goods, and that is possible only if money*

*is afflicted with all the defects inherent in our products. Our goods rot, decay, break, rust, so only if money has equally disagreeable, loss-involving properties can it effect exchange rapidly, securely and cheaply. For such money can never, on any account, be preferred by anyone to goods.*

*Only money that goes out of date like a newspaper, rots like potatoes, rusts like iron, evaporates like ether, is capable of standing the test as an instrument for the exchange of potatoes, newspapers, iron and ether. For such money is not preferred to goods either by the purchaser or the seller. We then part with our goods for money only because we need the money as a means of exchange, not because we expect an advantage from possession of the money.*

*So we must make money worse as a commodity if we wish to make it better as a medium of exchange.*

Gesell believed that money is an invention designed to perform its main function – that of a medium of exchange. He also believed that money doesn't need to be a store of value because this is totally against the natural economic order.

According to Gesell, the criteria for money to be an efficient instrument of exchange are that:

1. It will secure the exchange of goods – effectively judged by the absence of trade depressions, crises and unemployment.
2. It will accelerate exchange – as judged by the reduction in stocks of goods, the decrease in numbers of merchants and shops, and the correspondingly fuller store rooms of the consumers.
3. It will make the exchange of goods cheaper – as judged by the small difference between the price obtained by the producer and the price paid by the consumer.

#### Potential Effects of Gesell's System

Gesell believed that introducing money with a circulation incentive would have far-reaching effects. For a start, once it came into use, his suggested 'parking fee' would ensure

that all hoards of money would soon dissolve. If money depreciated in value over time, everyone would be keen to spend it.

Investment in shares would be longer term rather than speculative. Would-be sellers of securities, anxious about what they would do with their money if they sold, would end up sitting on their shares instead, keeping their investments in the companies of their choice.

The activity of speculators would also decline, as they need to have money set aside ready to invest and during this period would lose heavily. As Gesell said, 'Wherever a speculator planted their foot, be it on building sites, mines or farming land, they would be on quicksand.' Similarly, speculators could no longer hold back goods in warehouses waiting for the demand to rise, as again their money would be losing value.

With everyone wanting to get rid of their 'hot money', buyers would buy well in advance of their need, thus relieving retailers of the costs of carrying large quantities of stock. Shops, therefore, would instead become display cases of samples of goods. Moving back along the chain, manufacturers would also be paid in advance. All in all, the costs of commerce would decline dramatically.

Co-operatives, which are formed to reduce the costs of commerce, would no longer be necessary with Gesell's system as this would already be achieved through money reform. Price-fixing by middlemen, leading to corruption, would also disappear. Gesell again: 'For the most efficient co-operative society is always the open market, where owner deals with owner, where the quality of the goods is estimated by those concerned personally.'

Under Gesell's system, money in savings accounts would not be subject to demurrage. So, despite dire predictions to the contrary by objectors, nothing would hinder savings – you could put a \$100 in the bank and get it out later without loss or gain. Banks would lend out money on the same terms, as they, too, would want to avoid the 'parking fee' charges (whoever possesses the money would pay the parking fee to the issuing authority).

And people would have more to save. When the cost of commerce falls, either prices drop or wages rise. But since the governing authority of such a system would want to keep prices stable, wages would rise. Then, with more people saving, money would no longer be scarce. In turn, interest rates would drop, and with the price of interest no longer being built into land, houses, roads, sewers, electricity and all manufactured goods, prices would trend downwards. As Gesell said, 'Elimination of the interest that now goes into price, will, in this case be expressed, not by lower prices, but by higher wages.'

But i

f everyone had to spend, wouldn't money could go straight into land speculation? Gesell predicted this, and so saw currency reform working hand in hand with land reform: 'Usury is usury, whether it is for land or for money. What difference does it make to the farmer whether he is fleeced in renting land or in borrowing money? Both the money usurer and the land-usurer will take exactly as much as they can get – neither will rebate one jot.'

Gesell believed that land is a vital natural resource to be held in trust rather something that can be treated as be a tradeable commodity and an object of speculation. Influenced by the American political economist Henry George (1839–97), he advocated that the state should buy all land.

Gesell was writing almost a century ago, so it is interesting to speculate what would happen if his system were to be introduced today. For a start, when consumers want to spend their money, advertising becomes less necessary and so advertising costs would reduce. As discussed above, there would be a downward pressure on prices, expressed in higher real wages. People would therefore save by not having to pay interest on everything they bought. As a result, they might then choose to buy goods and services that bring long-term benefits, such as further education, house insulation, solar and wind power, better quality furniture and curtains, better quality machinery, soil restoration systems, and more durable and fuel-efficient cars. For their part, manufacturers, no longer burdened with high interest and storage costs, would be under less pressure to make a quick profit and thus be able to make more durable and better quality goods.

### Speed Money in History

While Gesell may have been the first person formally to propose a kind of velocity control for a national currency (so-called 'speed money'), according to Bernard Lietaer similarly designed currencies have existed at least twice before in history, when real wealth rather than monetary wealth was accumulated.<sup>4</sup>

In ancient Egypt, when people brought their bags of corn to a storehouse, a piece of pottery called on ostraca was given to them as a receipt. These ostraca were more convenient to handle than bags of corn, and so they began to circulate as currency. At the storehouse, depositors were charged a 10 per cent storage fee for the privilege of having their corn stored and protected from vermin. So, if they deposited ten bags of corn, six months later they received only nine bags back. The effect of this was rather like a negative interest rate, and the result was that Egyptians didn't save their money but instead spent it on things that would last. They constructed pyramids and an agricultural system so

sophisticated that Egypt became the breadbasket of the ancient world. This monetary system remained in place for over a thousand years.

The second example of a currency with a circulation incentive from history occurred in Europe during the period 1150–1300. At this time silver bracteates (thin plates) were issued by nobles and bishops to circulate as currency. The bracteates were recalled at regular intervals and later reissued with a lower silver content in a form of tax collection by the nobles, the rate of reduction of silver averaging around 2–3 per cent a month. As a consequence of this, people preferred to spend the currency rather than hold on to it. And so we find that during the period when bracteates circulated, art and culture flourished, craftsmen worked five days a week and the standard of living of workers was high. As Bernard Lietaer says, 'Is it a coincidence that cathedrals flourished as the most grandiose symbols of community solidarity in Western history, yet declined as soon as the brakteaten system was replaced with the king's monopoly on the creation of currency?'<sup>5</sup>

Of course, some people will argue that pyramids and cathedrals are useless, or that the pyramids were built with slave labour. But there can be no doubt that each of these periods in history was a time when real capital was built up and when ordinary people enjoyed great prosperity.

#### Gesell's Influence

Although Gesell did temporarily gain some political power during his lifetime, he was generally considered a crank and was eventually executed for high treason by Bavaria's hardline Marxist government in 1930. Of the economists of the day, only Irving Fisher and John Maynard Keynes acknowledged his work. Fisher said of Gesell's theory, 'The plan offers the most efficient method of controlling hoarding and probably the speediest way out of the depression.'<sup>6</sup> Keynes, meanwhile, devoted seven pages of his book ??????? to Gesell's writing, saying that he was an 'unduly neglected prophet'.<sup>7</sup> He said that he had read Gesell many years after being urged to do so by the theorist's devotees. 'Like other economists I had treated his profoundly original strivings as being no better than those of a crank. The significance of his theories only became apparent after I had reached my own conclusions in my own way.' Keynes said Gesell was unaware that money had a greater liquidity premium than any other article, and that 'He has constructed only half a theory of the rate of interest.'

Although his ideas were not put into practice during his lifetime, Gesell's theories gained prominence through the Depression of the 1930s, as I shall discuss below. Today, his works are widely known, and there is a Gesell Society in Japan, where 0.5 per cent interest rates are sufficient to divert money into productive investment.

#### Practical Applications of Gesell's Theories

Although no country has ever adopted a national currency with a built-in hoarding tax,

probably the most significant and exciting local currencies of the 20th century were those inspired by Gesell.

### The Wära

In Germany in 1919, the free money (*Freigeld*) movement, based on Gesell's ideas, was started. It was at this time that Germany was suffering from severe hyperinflation. In an attempt to eliminate its war debts after World War I, the country had issued too much money. John Galbraith says that by 27 November 1923, domestic prices stood at 1,422,900,000,000 times their pre-war level,<sup>8</sup> and notes had to be transported to the shops in wheelbarrows and prams as they were required in such huge quantities.

By 1926, Gesell's friend Hans Timms had formed the Wära Barter Company, an association to put the theorist's principles into operation. Timms called his new scrip Wära, and by October 1929, the month of the Wall Street Crash, the association had issued Wära in five denominations to be bought with an equivalent in Reichsmark. A 1 per cent stamp fee was payable monthly, which was to be spent on publicity.

Then, in 1930, with unemployment really biting, a bold experiment started. In the tiny village of Schwanenkirchen, Herr Hebecker, the owner of a disused coal mine, borrowed 50,000 Reichsmarks from the Wära Barter Company and issued an equivalent amount of vouchers for his coal. He then persuaded his workers to accept their wages in Wära. These notes came to be trusted by the bakers, flour millers and other tradespeople of the village because they were redeemable at any time for coal at Hebecker's coal mine, or, in emergency, for Reichsmarks. The vouchers had to be validated monthly by paying a 1 per cent fee to the coal mine.

Soon the Wära began to circulate fast, and Schwanenkirchen started to recover its prosperity and gain a new spirit of freedom. Economist Irving Fisher said that reporters came from all over Germany to see and write about 'the miracle of Schwanenkirchen'.<sup>9</sup> Furthermore, he reported that even though the amount of currency in circulation was never more than 20,000 Wära, over 2.5 million people handled the notes as result of their high velocity of circulation.

Then, when the Wära currency had spread throughout Germany, had involved more than 2000 corporations and was being used with a variety of backing commodities, it all came to a sudden stop. In November 1931, the German government passed an emergency law ending the experiment, and the workers went back to being unemployed.

### The Miracle of Wörgl

Perhaps the most successful community currency of all time was that used in Wörgl,



Austria, for a period of 14 months in the 1930s. It had all the right ingredients, the support of an enthusiastic and influential mayor, a sensible committee to run it, and the correct formula for applying a demurrage charge.

Back in 1932, the mayor of Wörgl was one Michael Unterguggenberger, a train driver who had left school at the age of 12. A trade unionist, Unterguggenberger had read the works of Marx, Proudhon and Gesell, and had watched the Schwanenkirchen experiment with interest. His town was seriously in debt and 500 of its 4300 inhabitants were out of work. The parish was ten times as indebted as the town. So, on 8 July 1932, the mayor convinced his community advisory board that 'slow money' was the cause of the economic paralysis and that they had nothing to lose by trying an emergency scrip. He then convinced local businessmen and the newspaper to back the idea. Four days later the town started work on their overdue street repairs, and by 31 July they had issued their first 'work confirmation certificates', also called local schillings.

Wörgl issued 20,000 local schillings in three denominations, and deposited the same amount in the bank in national currency. The currency was superscribed with the words 'They alleviate want, give work and bread', and had to be validated every month with a stamp worth 1 per cent of the nominal value of the note (a 'misery payment' for the local welfare committee). If people wanted to exchange their local currency for Austrian schillings, they could do so with a 2 per cent penalty, high enough to act as a discouragement.

In his book *Stamp Scrip*, Irving Fisher says, 'All city employees, including the mayor, were to receive 50 per cent of their salaries in scrip and the new emergency workmen were to be paid 100 per cent in that form.'<sup>10</sup> Despite initial scepticism, the booster effect soon began to work. Taxes, in arrears since 1926, were repaid. Seven streets were rebuilt and asphalted, 12 roads were improved, the sewer system was extended, trees were planted and forests were improved. The construction of a ski jump was started in January 1933, along with a water basin for the fire department. A bridge in the town still bears the inscription 'Built with free money'.

In her book *Interest and Inflation Free Money*, Margrit Kennedy says: 'Within one year, the 32,000 Free Schillings circulated 463 times, thus creating goods and services worth over 14,816,000 Schillings. The ordinary Schilling by contrast circulated only 21 times.'<sup>11</sup> Unemployment in Wörgl dropped 25 per cent, when in the rest of Austria it had risen 10 per cent during the same time period.

Soon the miracle of Wörgl had attracted more general attention around Austria, with 200 other towns showing signs of copying the system. But on 8 November 1933, just 15 months after the currency was put into circulation, the government made it illegal after it

was put under pressure from Austria's state bank and the Tyrol Labour Party. Although Wörgl's council challenged the order, it finally lost its case in the Austrian Supreme Court.

Reflecting on the significance of this experiment, many Gesell followers (including Bernard Lietaer) have suggested that had it been allowed to continue World War II might even have been averted, since it was his policy to eliminate unemployment that brought Hitler to power.<sup>12</sup>

### Depression Scrip in the US

Depression scrips also appeared in the US. Thomas Greco says of these, 'They were put into circulation by state governments, municipalities, school districts, manufacturers, chambers of commerce, business associations, local relief committees, co-operatives and even individuals.'<sup>13</sup> In many cases these currencies were not redeemable for the national currency, which is one reason why they were not as well accepted as those introduced in Europe at the same time.

Unfortunately, the man who first introduced the system into America, Charles Zylstra, apparently had neither understood the basic time principle nor the need to keep the stamp value low. In October 1932, he established America's first scrip currency in Hawarden, Iowa, with a stamp being affixed at every transaction instead of by a certain date. This had the effect of a sales tax rather than an anti-hoarding mechanism. Moreover, whereas Gesell had recommended a 0.1 per cent hoarding fee per week, Zylstra demanded a whopping 3¢ per dollar of scrip with no time period. Hawarden was the precedent, and many small towns copied its system in some form. Irving Fisher had this to say: 'The omission from the Hawarden plan of the set dates for stamping, was, I think, ill-advised. It would naturally weaken the speed motive and might even reverse it, since it costs 3 cents to transfer the scrip instead of costing 3 cents not to transfer it.'<sup>14</sup>

Although the Depression scrips spread rapidly and were modestly effective, the early undated types were not well received. Proper dated stamp scrip was later introduced in Douthan, Alabama. Fisher wrote, 'From a correspondence with four or five hundred communities in every state of the Union, I gather that there is now a definite turn toward the Wörgl or dated type of Stamp Scrip.'<sup>15</sup>

This then led to a movement to issue dated stamp scrip nationwide. Senator Bankhead of Alabama presented a bill to this effect to the Senate on 18 February 1933. When Congressman Pettengill of Indiana presented a stamp scrip bill to the House of Representatives on 22 February 1933, he stated that the scrip was a 'tax on hoarding' to hasten the velocity of money circulation, and that since US\$1 million worth would circulate perhaps three to five times a week, it would do between US\$156 million and

US\$260 million worth of work in a year.<sup>16</sup>

However, it was not to be. In 1933 President Roosevelt introduced his 'New Deal' to fight the Depression, which was based on a centralised plan of large construction projects. Soon after, under pressure from his advisers, he prohibited any use of emergency currency.

These examples of successful demurrage currencies had three things in common: they were depreciating currencies; they were backed by, and therefore redeemable for, national currency; and they were acceptable for the payment of local taxes. Despite the clear advantages of these complementary currencies, they struck fear into the hearts of governments, which banned them. Below, I shall look at some of the objections to demurrage, giving arguments in its favour.

#### Common Objections to Demurrage

**Demurrage is useful only during a depression, when circulation is slow.**

This is not true. As discussed earlier in this chapter, demurrage was used for more than 300 years in western Europe during the Middle Ages and for at least a thousand years in ancient Egypt, both times with strong positive economic and social results.

**Demurrage will encourage more consumerism.**

Some say that demurrage will simply encourage people to spend more, thereby encouraging consumerism so that shops and houses will fill up with more unnecessary goods. These objectors say that it is immoral to advocate that people should be forced to spend their money.

Again, this is not true.

What demurrage does in practice is to encourage people to save, not in the form of money, but in the form of productive assets. In Wörgl, residents paid their taxes early and the local authority built roads and other forms of infrastructure. Using a modern example, if a demurrage charge was imposed now, people with money to spend quickly might use it in a variety of ways. While it is true that some might fritter it away on shoddy consumer goods, the general trend would be towards buying goods that would bring long-term benefits. When business decisions were being made about investments, the choice would trend away from short-term profits towards long-term alternatives.

In answering this objection, we can only look to the experience of history. As people have used their money wisely in the past, it is unreasonable to assume that with a similar system today they would rush out to sales to buy cheap furniture, carpets or television

sets.

**Demurrage will only shift holding costs to the consumer.**

The experiences of Egypt and Europe prove that with a demurrage system people do not stock their houses with goods. Instead, they are far more likely to use their money to build something worthwhile or to invest in infrastructure. The rational decision with demurrage-charged money is to invest in things that will reduce future cash requirements.

**Demurrage doesn't allow for the accumulation of capital, so nothing big can be built and business will not invest.**

The first half of the sentence is correct, but not the second; paradoxically, quite the opposite is the case. While the accumulation of financial capital is impossible in a demurrage system, the accumulation of real capital is very possible. To keep a lot of money under demurrage becomes very costly, but it is perfectly possible to invest in large long-term projects by paying for them as they proceed.

**The demurrage system will be inflationary.**

Objectors state that

if money circulates eight times as fast as the national currency, this will cause enormous inflation. Again, we can only look to the experience of history.

When Wörgl first backed its currency with Austrian schillings and put its local notes into circulation, there was some inflation at first. The authorities therefore immediately withdrew a large number of notes. In fact, they had to keep reducing the amount of currency in circulation until prices stabilised. Thus, authorities regulating a demurrage system have to put exactly the right amount of money into circulation, and then have to adjust that amount constantly so that prices remain stable.

Gesell believed that inflation and deflation are equally undesirable. His money system is not inflationary, because the agency responsible for issuing the currency will keep prices stable by adjusting the money supply. And the boom and bust cycle, so damaging to small businesses, no longer occurs since people with money cannot hold it back until it suits them. With our current monetary system, the possessors of money capital have always had this advantage over the producers of goods, and in all industrialised economies the business cycle is controlled by adjusting interest rates. However, without interest rates the whole process is simpler and more direct.

**Saving will become impossible. People are dependent on interest to save, and when they have money to invest they want some fixed-interest investments.**

With Gesell's system, money in a savings account is exempt from demurrage, so when you put your money in the bank it would hold its value.

With regards savings and investments, the saver's loss of potential interest is tiny in comparison to the other financial benefits, as with free money no one has to pay the interest built into the prices of goods and services. Gesell said:

*If I lend somebody a sack of potatoes for a year, he will not give me back the same potatoes, which have meanwhile rotted, but a sack of new potatoes. It is the same with the savings bank. I lend it \$100 and it agrees to give me back \$100. The savings bank is in a position to do so, since it lends the money on the same terms.*

**Demurrage is just inflation in another form.**

This is not true. Gesell dreamed up his currency design during an economic crisis in Argentina. Above all, he was keen to create a stable currency for trading. With the demurrage charge, only the possessor of money has to pay the hoarding tax, whereas with inflation everyone is affected. And with demurrage, the face value of the note remains the same.

**But velocity isn't important; \$8000 circulating once a year is just as good as \$1000 circulating eight times a year.**

Engineers or mechanics might argue this, but the two are actually quite different and a social system isn't the same as a mechanical system. Money only has value because the people accepting it give it value and trust it ongoingly. If \$1000 circulates eight times a year it goes through eight people, who all show their confidence in the currency by accepting it; on the other hand, only two people are involved if \$8000 circulates once. What rapid circulation does is to build up community confidence in a currency.

Human beings are not machines and are capable of a wide range of behaviours, including self-interest. We must therefore design a currency that recognises this. Just as the speed of blood flowing around a body is important, so too is the speed of money flow in an economy. The circulation fee is to the economy what the heart is to a human body – it is the booster that keeps life flowing at an optimum pace, the pump that enables blood to flow through all the organs and cells of the body, distributing oxygen and

nutrients.

‘Speed money’ therefore puts hoarded money back into circulation. While an optimum speed is necessary, the speed must be natural – it can’t be too fast. The European nobles and bishops of the Middle Ages who issued bracteates every six months containing less silver than the ones they had recalled did so for tax-gathering purposes. But they got too greedy, and the rate of debasement subsequently became far too high. Gesell recommended a demurrage charge of 5.2 per cent per year, while Wörgl applied it at the rate of 12 per cent a year. In his book *Stamp Scrip*, Irving Fisher recommended a demurrage charge of 104 per cent per year for the Depression scrip in the US, which of course was way too high and didn’t work.<sup>17</sup>

Money velocity is usually the neglected factor in designing a currency. But it is vital because it has the potential to reconnect money with the natural world and thus allow it to make a huge step towards sustainable economic development.

**But not everything deteriorates; the value of items such as gold, silver and platinum remains the same or increases, and that of things like antiques, wine and paintings also increases over time.**

While it is true that the value of rare or irreplaceable items such as works of art and antiques do increase, on the whole goods depreciate in value. Various authors have estimated that the average rate of decline of the value of manufactured goods, agricultural products, precious metals and services is about 3–4 per cent per year.<sup>18</sup>

Before I move on to discuss business-issued currencies in the next chapter, I will look at a hugely successful complementary currency system in Italy that uses a circulation incentive, and a more recent example from Germany.

The Simec

This is the story of a remarkable local currency issued for political purposes by a retired

law professor in Italy. Professor Giacinto Auriti, who was influenced by Silvio Gesell, didn't use a demurrage charge in the design of his currency but he did include a circulation incentive.<sup>19</sup>

Auriti comes from an old moneyed family and is a well-loved and respected local identity in Guardiagrele, a small medieval village (population 10,000) in eastern central Italy in the foothills of the mountains of Abruzzo. In 2000, he realised a decades-long dream of deposing the Italian central bank from its money-printing monopoly and issuing his own currency, which he called the simec. He spent undisclosed amounts of family money on the booster needed to help the currency circulate rapidly.

Auriti designed the currency so that the only people who could redeem it for lire were the local businesses. Although simecs were sold to individuals on a par with lire, merchants were able to redeem them for twice the value of lire, a booster mechanism that actually proved to be too great.

But the simec didn't happen suddenly. In 1996, Auriti published a book on law, and in 1997 he established the *Sindacato Antiusaria*, or Anti-usury Syndicate, which has as its aims the reform of the Italian banking system (*sindacato* is Italian for 'trade union' as well as 'syndicate'). The organisation drew its members from the academic and legal community in Italy, and gained support from certain politicians who had prepared a bill on monetary reform that they were attempting to introduce to parliament.

The simec (short for *SIMbolo ECONometrico*, or 'economic symbol') was launched primarily to draw attention to this reform agenda. The group believes that at the act of issue, money is the property of all citizens and must be credited to the state by the central bank.

This is the most direct way of expressing the idea that money should be created only by the government acting on behalf of the people. The syndicate also believes that every citizen should receive a social income, a sum that is a share of the monetary issue and is credited as the universal basic income.

The simec was first launched in the middle of July 2000. Locals went to Auriti's home in Guardiagrele and exchanged their lire for equivalent amounts of simec. The simec notes were issued in several denominations from 100,000 simec down to 500 simec, and all were numbered. Printed on the notes were the words 'It is not good to sell freedom for gold' and 'The property of the carrier'. And on the back of the notes were quotations from the Italian laws that make them legal tender.

Auriti's supporting group made up a directory of local firms that accepted simec, and in their windows these businesses displayed a notice stating, 'We believe in the popular ownership of money'. At the end of each week local traders brought their simec back to Auriti for redemption into lire. The favourable exchange rate of two lire for every

simec meant that the traders could pass their windfall on to their customers, so their prices dropped. Soon, people were braving the slow and windy roads up to Guardiagrele, coming from long distances to buy up simec notes and spend them on quality goods sold at bargain prices. A frenzy of buying left shopkeepers right down on their stock. Smoked prosciutto, elegant bags, designer clothes and shoes were all going out at half-price.

By the end of August 2000, the success of this local currency had caused a serious disturbance in the usually calm province of Chieti. Shopkeepers who didn't accept the simec were losing business and the local merchants' association was split in two over the issue. The news became national, and towards the end of the month the Guardia Finanzia (Financial Police), after prompting from the Banca d'Italia, stormed the little town, took away all the simec in boxes and held the town under financial 'house arrest'.

But Auriti was prepared for such an event. Six weeks later he won the ensuing court case, and by the end of September he was allowed to reissue the currency. Although at the start of the scheme in July only 40 of the town's 400 shops accepted simec, the situation was quite different after the reissue. Dr Thompson, a New Zealander who visited Guardiagrele in October 2000, said:

*By mid-October between a third and a half the shops were accepting Simec and all of the other shops that I visited told me that they are planning to accept Simec very soon. In the evening I was chatting with the people in the entrance to Auriti's beautiful house where they exchange lire for simec. During the whole hour I was there the people were streaming in to buy simec.*

Auriti estimated that by mid-August 2000 about 2 billion simecs, worth US\$1.9 million at his exchange rate, were in circulation. By the following January, he told a journalist that about 700 million simecs were in circulation, circulating so fast that they had created liquidity worth 10 billion lire.

When the currency was reissued at the end of September 2000, shopkeepers, realising that they needed sufficient lire to pay their suppliers, started selling goods partly in simecs and partly in lire. This meant that the discount to the customer was reduced. By October 2000, the rules were being altered to reduce the booster, and later the system was worked so that only half of the notes came back for exchange into lire and the rest remained in circulation.

According to the *Wall Street Journal*, Auriti has been invited by a political party to speak to its mayors on how to spread local money worldwide, and a Franciscan Catholic college plans to open a school of monetary values, which it intends to dedicate to Professor Auriti's theory.<sup>20</sup>



### The Chiemgauer<sup>21</sup>

In early 2002, Germany's economy had been in decline and regional managers were looking for a way to stimulate and protect local economies, something the euro could not do. Margrit Kennedy, author of *Inflation and Interest Free Money*, who was working in Hamburg at the time, thought of an Australian voucher scheme she had recently researched and, after much discussion with colleagues, she modified it and recommended a similar scheme for Germany. The idea fell on receptive ears. One of the first regional currencies to get underway was organised by six students at a Steiner school in the mountain town of Prien in the Chiemgauer district of Bavaria.

The students launched their scheme in January 2003 after two months of preparation. Chiemgauers, which are known as coupons or credit notes, come in denominations of one, two, five, ten and twenty, and are colourful, in orange, purple and green. Each bill has a hologram, a serial number and two signatures, which along with high printing standards make forgery difficult. There is also a club card, identifying members of the association that had to be formed to avoid prosecution from financial authorities. Membership is free, although each member of the association must agree to obey the scheme's rules.

Retailers accepting chiemgauers can redeem them for only 95 per cent of their value, as 2 per cent goes to the students for administration of the programme and 3 per cent goes to a local charity of the merchant's choice. It is also an ageing currency. Notes are valid for only three months and come with an expiry date. To validate them, every three months holders must pay 2 per cent of the face value as a circulation fee to prevent hoarding, placing a sticker on the note as proof that this has been done. This gives them an incentive to pass the notes on quickly.

Thus the scheme is good for local economic development and keeps money in the local district. A certain amount of national currency is thus taken out of circulation and replaced with a currency that is valid only in the region.

By October 2003, 50,000 chiemgauers were in circulation. Bundles of 50 chiemgauers were being sold for 50 euros at the Prien school and at several other locations in the town. At that time, 80 local shops were accepting the notes. By September 2004, according to the Goethe Institute, 150 businesses were involved.

Other similar regional currencies in Germany include the roland in Bremen, in the north of the country, and by late 2004 more than 40 initiatives had been launched elsewhere. Margrit writes, 'The German explosion of regional currencies still keeps me breathless, all the major newspapers and television stations have had reports.'<sup>22</sup>

### Notes

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14 Fisher, *Stamp Scrip*, Chapter 5, accessible at <http://userpage.fu-berlin.de/~roehrigw/fisher/stamp5.html>.

15 *Ibid.*

16 Fisher, *Stamp Scrip*, Appendix 5, accessible at <http://userpage.fu-berlin.de/~roehrigw/fisher/stamp-ap-5.html>.

17 Fisher, *Stamp Scrip*.

18 Source of stats t.c.

19 The description of the simec in this section is drawn from personal accounts by New Zealander Dr Finlay Thompson, who visited Professor Auriti in October 2000. Further information was derived from articles on the Internet and in the *Wall Street Journal* (see Note 21), *L'Infomazione del Collezionista* (Augusto Ferrera, 'The Truth that Burns', 16 August 2000), *The Guardian* (Roy Carroll, 'Pensioner's Currency Rivals Euro', 5 September 2000) and the *New York Times* (John Tagliabue, 'Foe of Italy's Central Bank Issues Money in Village', 30 January 2001).

20 Yaroslav Trofimov, 'Conspiracy Theory Gains Currency, Thanks to Town's Professor Auriti', *Wall Street Journal*, 6 October 2000.

21 The information in this section is based on the following sources: Mariana Schroeder, 'German Teenagers Invent a Currency', *Christian Science Monitor*, October 2003, accessible at [www.csmonitor.com/2003/1030/p12s02-wmgn.html](http://www.csmonitor.com/2003/1030/p12s02-wmgn.html); 'Euro or Chiemgauer? Alternative

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[www.newmediaexplorer.org/sepp/2004/03/12/euro\\_chiemgauer\\_alternative](http://www.newmediaexplorer.org/sepp/2004/03/12/euro_chiemgauer_alternative); and  
Antonia Loick, 'Regio Supplements Euro: More and More Regions Introduce Their Own  
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22 Email from Margrit Kennedy to Helen Dew, 11 October 2004.

13

## Privately Issued Currencies

Quote to come<sup>1</sup>

This chapter will describe some examples of business-issued currencies, starting with those that are backed by the retailer's promise of redemption for goods or services. Tradesmen's tokens in 19th-century New Zealand are an example of such a currency, as are the 'deli dollars' used by a Massachusetts business to fund capital development. Next, I look at modern loyalty voucher schemes such as New Zealand's Fly Buys points and AA Reward points, which are redeemable for a wide variety of goods and services. Finally, I discuss two recent fiat currencies backed by the promise of the retailers who accept them. These examples, from the Chatham Islands and Queensland, Australia, have not been fully democratic, and the entrepreneurs have basically reaped the seigniorage, although in each case there have been attempts to share the profits.

### Pre-paid Voucher Schemes

#### Tradesmen's Tokens

In New Zealand in the 1850s, coins and notes were in short supply, so many local firms issued their own attractive coins as tokens or vouchers. Called tradesmen's tokens, these were issued in almost every town in the country and were readily accepted by the public. From their introduction in 1857 by draper Archibald Clark and grocer Mark Somerville of Auckland, and by chemist A. S. Wilson and general merchants Day and Mievill of Dunedin, the tokens gained in popularity. In *From Beads to Bank Notes*, R. P. Hargreaves says, 'Over the following 24 years a further 42 firms issued tokens, the last being issued in Christchurch by a musical firm Milner and Thompson in 1881.'<sup>2</sup> By then, there was sufficient national currency in circulation and the tokens were no longer needed, and by 1897 they were no longer legal tender.

#### Deli Dollars

Private currencies, or tokens promising delivery of service or goods in the future, have the effect of being a loan from customers who trust the business or businesses issuing the currency. Susan Witt, of the E. F. Schumacher Society in Berkshire, Massachusetts, gives the following account of a local delicatessen's currency:

*It started in 1989 when Frank Tortoriello, the owner of a popular restaurant in the southern Berkshires of Massachusetts, was rejected for a bank loan to finance a move to a new location. In a small community word spreads quickly. All of us at the E. F. Schumacher Society office frequented The Deli. We recognised that Frank had a committed clientele who could afford to take a risk to keep the cherished luncheon spot in business. So, we suggested that Frank issue 'Deli Dollars' as a self-financing technique. Customers could purchase these notes during a month of sale and redeem them over a one-year period once The Deli had moved to its new location.*

*Martha Shaw, a local artist, donated the design for the notes, which were dated and read 'Redeemable for meals up to a value of ten dollars'. Frank sold ten-dollar notes for eight dollars and in 30 days had raised \$5000. Over the next year, Frank repaid the loan, in sandwiches and soup, rather than hard-to-come-by federal dollars. Berkshire Farm Preserve Notes, Monterey General Store Notes, and Kintaro Notes soon followed in what began to look like a movement.<sup>3</sup>*

Any business that is trusted can fund its development in this way. In New Zealand, there are similar examples to the deli dollars scheme – Stoneyridge Vineyard on Waiheke Island, for instance, pre-sells all of its wine before it makes it. Because of the vineyard's excellent reputation, the wine usually sells out quickly. Thus the trust built up by previous service enables the winery to acquire sufficient interest-free credit from its customers to fund production.

## Loyalty Schemes

A good loyalty scheme provides a link between a business and its customers. It addresses one of the fundamental rules of business success, namely that it is better (and between five and seven times cheaper) to retain a loyal customer than it is to find a new one.

Loyalty cards are a form of private currency, and are in use the world over. The best-known schemes in New Zealand are Fly Buys points, AA Reward points and Westpac Visa Hotpoints.

### Fly Buys Points

Fly Buys points can be earned when a customer spends money at a number of nationwide shops and on numerous services, including Air New Zealand, Avis rental cars, Bank of New Zealand credit cards, Beaurepaires, Best Western motels, Burger King, Liquorland, Mitre 10, New World supermarkets, Noel Leeming, Computer City, Shell, State Insurance, Stirling Sports, Telecom and

Unichem pharmacies.

The points built up can then be spent on a huge range of products, from air travel to computers, rechargeable toothbrushes, wine, magazine subscriptions, fragrances, cordless phones and coffee makers. The points have to be used within three years of being awarded, or they simply drop off the customer's total. This encourages customers to use them quickly.

#### AA Reward Points

Automobile Association members in New Zealand can earn AA Reward points every time they buy from a wide variety of stores, including BP, Vodafone, Telstra Clear, Dick Smith Electronics, Woolworths, Genesis Energy and Amcal chemists. When members reach 200 points they receive a NZ\$20 discount voucher, which can then be spent at any of the participating outlets.

#### Westpac Visa Hotpoints

As with the Fly Buys points rewarded to Bank of New Zealand credit card holders, this scheme also rewards people for going into debt. When customers apply for a credit card at Westpac Trust they are automatically enrolled in the Hotpoints scheme for an annual membership fee of NZ\$15, although they can choose not to take part. They then earn one Hotpoint for every NZ\$1 spent using their credit card, and if they have a gold card, it's even faster – 1.25 Hotpoints for every NZ\$1 spent.

When customers have accumulated sufficient Hotpoints, they can either change them to Air New Zealand Airpoints, at a cost of NZ\$10 and an exchange rate of 0.7 Airpoints for 1 Hotpoint; spend them at participating retail outlets, where 12,500 Hotpoints is equivalent to a NZ\$100 voucher; or donate them to charity. When customers are ready to spend, they call a freephone number and ask for vouchers for a certain company to be sent to them. They can choose reward vouchers from more than 1500 travel agents, shops and retail outlets around the country, including the Warehouse, Living and Giving, Freedom Furniture, Hallensteins, Mitre 10, Whitcoulls, Village and Hoyts cinemas and Beaufort's.

## Privately Issued Fiat Currencies

### Chatham Islands Notes

The Chatham Islands lie 800km east of Christchurch, and because of their geographical location they are first to see the new day and were first to see in the new millennium. To celebrate the event, Christchurch entrepreneur Clint McInnes set up a private company called the Chatham Islands Note Corporation, finding six shareholders (some of whom were Chatham Islanders) to invest money in the scheme. On 1 January 2000, the company issued a set of very attractive notes depicting island life.

The notes were issued in \$2, \$3, \$5, \$10 and \$15 denominations and were sold in collectors' sets. The words 'Chatham Islands New Zealand' were printed at the top, and 'First to see the sun' at the bottom. The design on the front of the notes was rather like a US banknote, while the back resembled an old NZ£5 note.

The images on the reverse were based on local history, the sea, the community and the land of the Chatham Islands. Much to the delight of the locals, the notes were well designed and accurately reflected life on the Chathams.

When designing the notes, Clint McInnes took advice from the Reserve Bank of New Zealand. He was told not to use the words 'currency', 'reserve', 'legal tender' or 'bank', and so finally settled with the words: 'This note is negotiable tender on the Chatham Islands for the Millennium Year 2000'. All the notes were numbered and each depicted an endangered seabird, the taiko.

The first limited-volume set of notes was printed on a very high-quality polyethylene non-tear plastic manufactured in France, and included such security features as a foil hologram, ultraviolet print and microlettering. As the notes have high collectable appeal, a Melbourne agent sold them all over the world. Since the currency was first issued, the Chatham Islands Note Corporation has received letters, emails and faxes from France, Germany, Brazil, Russia, Spain and the United States.

The Note Corporation's lawyer advised it to make the notes redeemable for New Zealand dollars and to make it clear that acceptance of them was optional. So the company printed a plaque for participating merchants to display in their shop or retail outlet setting out the rules of the currency.

The Note Corporation released the currency by selling the notes on a par with the New Zealand dollar to the first participating merchants. But it soon turned out to be more than a millennium gimmick for tourists and collectors. In no time at all, the islanders began to use these beautiful notes as a means of exchange as an alternative to the New Zealand dollar. Merchants and other organisations started accepting the notes, including the pub, the general store,

the craft club, the fire brigade and the golf club, and by July 2001 the council was accepting it for dog registration and photocopying. The only place that didn't accept the island notes was the ANZ Bank, which is also the Chathams' post office.

John Day runs a café in Waitangi, the main settlement in the Chathams, and is the treasurer of the Chatham Island Note Corporation. He said, 'We call it island currency. We don't claim it is legal tender. We are proud of it and the people are very positive about it.'<sup>4</sup> He went on to say, 'Merchants can redeem the notes but not many do. If they want to redeem them they come to us instead as our café is open six days a week and we live next to the ANZ Bank, the only bank on the island.' Asked about the political reaction, Day said, 'I gave a set to Helen Clark. I also gave some to Jim Anderton, who said when the People's Bank was set up he would put it in as the first deposit.'<sup>5</sup>

Whenever collectors or tourists take notes away, the company makes a profit. The shareholders decided to split this profit three ways: a third towards running the company; a third to the shareholders; and a third to the merchants buying and accepting the money.

After the currency had been operating quietly for a few quiet months, the *Timaru Herald* suddenly ran a story on it.<sup>6</sup> Other print media followed, and Radio New Zealand interviewed John Day. Not surprisingly, journalists reported that the notes were being used as money. In April 2000, when the Reserve Bank suspected that some collectors mistakenly thought the notes were legal currency, it issued a press statement. Deputy Governor Murray Sherwin described the notes as 'harmless as a bit of fun and a gimmick', but emphasised that they were not legal tender. He said, 'The Reserve Bank some time ago indicated to the group producing the Chatham Islands notes that, so long as they didn't pretend to be issuing legal tender, that was fine. Indeed, the actual notes do not resemble New Zealand's currency and thus they have the same status as Monopoly play money, sea shells or bottles of beer.'<sup>7</sup>

The then Democrat MP John Wright quickly responded with his own media statement, calling the notes a 'powerful tool that enables local people to exert control over their money'.<sup>8</sup> He said that the currency was non-inflationary and noted that it had value because the community had confidence in it.



The Note Corporation itself then sent a statement and a full set of notes to all branches of the media. This brought a renewed upsurge of interest from coin and note collectors and, with nowhere else to direct their enquiries, people inundated the Reserve Bank with phone calls. Any enquiry now directed to the Reserve Bank about the Chatham Islands currency is met with the reply that it is not legal currency and refers the enquirer to the bank's April 2000 media statement.

Because of the success of the first issue, the Note Corporation decided to go more upmarket with its second set. These notes were printed in Thailand and depicted four statues that stand on Pitt Island, a small island off the main Chatham Island. The notes were of better quality and hence more collectable than the first set, and it was expected that the old notes in circulation would be recalled and exchanged for new. However, this wasn't to be. In March 2001, Clint McInnes, Manager of the Note Corporation, visited the Reserve Bank to tell them of plans to issue the second set of notes. After the meeting, the Reserve Bank started to send letters saying that the corporation was breaking the law by issuing a new set of notes, and threatened legal action under three different statutes.<sup>9</sup>

Clint McInnes has described the Chatham Islands notes as a 'win-win-win for tourists, locals and merchants'.<sup>10</sup> But by April 2002 both he and the Note Corporation faced High Court proceedings brought about by the Reserve Bank under Section 29 and 30 of the Reserve Bank Act and under the Fair Trading Act. Such a case was too expensive for the company to fight, so the venture ceased temporarily and the website was withdrawn.

In late 2003, McInnes said in an email to the author that he 'refused to let go of the rope'.<sup>11</sup> He was still working with the Reserve Bank, using legal means to reach accommodation with them to sell the 2001/2002 issue. He continued, 'Hopefully we are now about to reach agreement where we will be required to overlabel all 2001/2002 notes with the exception of a number of framed or laminated collector sets.'

The new notes are in \$3, \$8, \$10 and \$15 denominations, and are highly collectable.<sup>12</sup> They are also used in conjunction with the Bronze Vision Trust in relation to the depicted Pitt Island sculptures, which are located at the first point of land to see the sun each day and which carry the message on the wind of 'The need for us all to care for each other and our world'.

#### Save Australia Buyers Club (SABC)

This voucher system was founded in mid-1998 in Queensland, and was based on a desire to buy back Australia from overseas interests. The scheme was suspended by the Australian Tax Office in July 2003, and in November 2003 it

was awaiting a private ruling on whether it had avoided paying goods and service tax. For all the shortcomings of this voucher scheme, it is an example of how to build in incentives for each of the stakeholders. It was owned and run by Robert Walsh and Peter McNally, whose company McNally Australia Pty Ltd was based in Gympie, Queensland. There were 900 members at the time of suspension, down from a peak of 14,000, and regular meetings of participants were held in each town and suburb.

Essentially, SABC was a voucher system in which members accepted each others' vouchers. A development fund was kept separate for investing in Australian-owned business. The scheme's 'loyalty reward shopping vouchers' were sold in four denominations: V5, V10, V20 and V50. The front of the vouchers looked almost like Australian money, because they used the same colours as the A\$5, A\$10, A\$20 and A\$50 notes.

The loyalty vouchers, or pre-paid gift certificates, could be used and traded amongst business members, with no transaction fees applicable. By accepting loyalty vouchers, some businesses increased their ability to attract new customers with no risk involved, as the vouchers were 90 per cent redeemable for Australian dollars from McNally Australia Pty Ltd. Consumers bought V55 for A\$50, thereby gaining 10 per cent purchasing power, and further incentives were built in.

In contrast with other publicly created currencies, members of the SABC had no right to essential business information as McNally Australia Pty Ltd was a private company. Therefore, members never knew how many vouchers had been sold, how many vouchers had been redeemed or the state of the business situation of the system.

One of the major issues that confronts businesses when dealing in alternative trading systems is that of being stuck with complementary currency they can't spend. In contrast to the Salt Spring Island Gift Certificates scheme (see page 000), which redeems merchants' vouchers at par, the SABC scheme was set up to stimulate merchants to encourage their suppliers to accept vouchers too. The scheme did this through built-in incentives, which meant that merchants didn't lose out if they could persuade their suppliers to accept the vouchers.

While at the start of the scheme the option to redeem the currency for Australian dollars had been taken up for 70 per cent of the vouchers issued in the first and second years, this figure had dropped to 7.5 per cent by 2002. The more the businesses used the vouchers among themselves, the less the vouchers were redeemed, and as a result the issuing company accumulated a growing amount of Australian dollars. The SABC used these dollars to buy back foreign-owned businesses and support Australian inventions. In three-

and-a-half years, A\$3.5 million of revenue was created (after a reduction in running costs, which were fairly high in the beginning). In addition, shares in Australian inventions were estimated to amount to A\$1.5 million.

Conclusion to come.

#### Notes

1 Quote and source of quote t.c.

2 R. P. Hargreaves, *From Beads to Bank Notes, The Story of Money in New Zealand*, Dunedin: John McIndoe Ltd, 1972.

3 Susan Witt, source t.c.

4 John Day quote source t.c.

5 Although the Kiwibank is now up and running, Jim Anderton still hasn't carried out his promise.

6 *Timaru Herald* article details t.c.

7 Murray Sherwin quote source details t.c.

8 John Wright quote source details t.c.

9 Source t.c.

10 Clint McInnes quote source details t.c.

11 Email from Clint McInnes to the author, 8 September 2003.

12 To see pictures of the Chatham Islands notes, go to [www.vision.net.au/~pwood/April2002.htm](http://www.vision.net.au/~pwood/April2002.htm).

## Proposals for New Currencies

*A good idea never was lost. Its possessor may die, but it will be reborn in the mind of another.*

– Thomas Edison (1847–1931)

In this final chapter on types and examples of complementary currencies, I discuss theories for new currencies. Some are what I. J. White calls ‘partly baked ideas’,<sup>1</sup> but as Thomas Edison says, a good idea is never lost. I mention theories for more than one form of energy dollars, a system that has notably been tried before in Wära, Germany, in 1930 with a coal-backed currency (see Chapter 12). The problems with our unhealthy money system demand some creative new approaches, and fast. While many may fail, with such failure will surely come success.

### Energy Dollars

Shann Turnbull, a Sydney-based writer and lecturer on the building of sustainable communities and the democratisation of wealth and of corporates, and the author of several articles and books on economics, has proposed a unit of money in the form of a voucher promising to supply a specified number of kilowatt hours of energy at a specified time in the future. He calls these vouchers energy dollars.

In Turnbull’s system, these notes would be created and issued by the owners of a power generator to pay for its purchase and installation.

The value of the notes would be limited by the output of the generator. The notes, which would have a specified maturity date, would represent the primary currency. Such currency notes would be held mainly by investors, investment banks and banks. Commercial banks would hold the primary currency notes as a reserve currency in like manner to a bank holding gold or a merchant banker holding grain.<sup>2</sup>

### Turnbull Rural and Urban Currencies

#### Shann

Turnbull has also proposed a system with co-existing rural and urban dollars,<sup>3</sup> creating a win-win outcome for industry in both urban and rural nations.<sup>4</sup> He theorises that if the value of money was determined by the terms of trade instead of by speculation, then currency values would be determined by the ratio of imports to exports. The population largely determines the value of imports in each region, but this may not be related to the value of exports from a region. When a common currency is used to determine how resources in each region are priced, the result is that one region subsidises another.

In Australia, for example, less than 10 per cent of the population living in outback regions produces more than 70 per cent of foreign exchange earnings through exports

of agricultural and mining products. Urban regions generate about 90 per cent of the imports, yet are responsible for less than 30 per cent of the exports. Clearly, the outback regions are subsidising the urban regions in the realm of foreign exchange.

In the Australian example, if both regions had their own currency, the outback dollar would be worth a great deal more than the urban dollar (say, 15–20 times as much). Rural industry would therefore be able to obtain labour, transport and other infrastructure services at a much lower cost, and the manufacturing industry in the cities would obtain far greater protection than was ever provided by tariffs. The cost of imported manufactured items to the urban sector would increase, and a substantial incentive would be created to undertake import substitution. As a result, the manufacturing industry would flourish.

### A Democratised International Currency

For many centuries the international currency has been either silver or gold, but the world economy has now expanded so many times that there are insufficient silver or gold reserves to back all the goods and services traded. As a result, certain national currencies have now effectively taken on this role, namely the US dollar, the British pound, the euro and the yen. These are all called ‘reserve currencies’ – in other words, those in which international transactions can take place.

The US dollar is by far the most important of these reserve currencies. As at 2000, over 68 per cent of the world’s foreign exchange reserves were held in US dollars, more than all other countries’ currencies put together, and the majority of international trade is now conducted in US dollars.<sup>5</sup> In the years from 1992 to 2000, the world’s central banks increased their dollar holdings by around US\$800 billion. To get an idea of just how much money this is, US\$40 billion for ten years would enable everyone in the world to be given access to an adequate diet, safe water, basic health care and adequate sanitation.<sup>6</sup> And this figure is, of course, only part of the subsidy given to the US, as companies, institutions and millions of people around the world also hold dollars. After turning down the Bretton Woods opportunity offered by economist John Maynard Keynes in 1944 (see below), the world’s richest and most powerful nation has been able to reap a huge benefit by creating most of the global money supply with no formal constraints.

But why does this happen? US banks lend the dollars into existence, and then the nation spends them throughout the rest of the world, gaining either goods and services or interest. This has meant that US imports exceed its exports; in only one year of the last two decades of the 20th century was the reverse true, when its exports exceeded its imports. In 2000, the US owed the rest of the world US\$2500 billion, a sum that was rising by a billion dollars a day owing to its chronic trade deficit.<sup>7</sup> As Richard Douthwaite says:

*The reason the US can write almost whatever cheque it likes is that its national currency is used as if it was an international one, giving the United States a huge advantage over other nations ... When gold was the world currency, wealth was created where gold was found. Today, wealth is created in the reserve currency countries when their banks approve loans.<sup>8</sup>*

Over the years there have been calls for a reform of the trade system, but developing a new international trade architecture requires discussion about a new international means of exchange. As mentioned in Chapter 4, in 1944 at Bretton Woods, New Hampshire, a number of nations came together to discuss the future of international trade. British economist John Maynard Keynes brought to the conference a proposal to foster a balance of trade between nations. He said that nations that export more than they import lose out in material terms because they gain money, which is only of use when it is spent. Conversely, nations that import more than they export owe the international group of nations more goods. Keynes maintained that both debtor and creditor nations therefore disturb the trade equilibrium (as in a green dollar system, which suffers when anyone accumulates too much credit or too much debt). To balance the system, he suggested the introduction of a new unit of currency, the bancor, and a new institution, which he called the International Clearing Union (ICU). All international trade would be conducted in bancors and the ICU's job would be to see that each nation maintained a near zero account. The proposal was essentially a mutual barter scheme with strict rules, and the bancor would have been a healthy currency.<sup>9</sup>

But Keynes's proposal failed because the powerful American delegation wanted to expand their export markets and have a trade surplus without any obligation to spend it. Instead of adopting the economist's proposal, Bretton Woods set up the World Bank and the IMF, and made interest payable on all debts. From this decision has emerged an escalation of Third World debt to an intolerable level and a situation where almost all nations of the world are in debt. Fifty years of unhealthy money has drained the developing world of its raw materials and left them with intractable debt.

There have been two more recent major proposals for a new international currency: Richard Douthwaite's energy-backed currency unit (ebcu) and Bernard Lietaer's terra. Both are interest-free, and Lietaer's clever proposal is also more self-organising than Keynes's bancor.

### The Energy-backed Currency Unit

In his book *The Ecology of Money*, Richard Douthwaite says that every economic system should establish the scarce resource whose use it seeks to minimise.<sup>10</sup> He identifies one

such resource as fossil fuel, since we need to lessen the risk of runaway global warming. If we link a currency to energy, that would effectively encourage more energy production, but since we want to achieve the reverse, he suggests we must instead link the currency to rights to emit greenhouse gases.

Douthwaite therefore proposes the adoption of an energy-backed currency unit, or ebcu, as this new international currency. In his system, greenhouse gas emission permits, representing the right to burn fuel, would be in limited supply. The IMF would deal out these special emission rights (SERs) on the basis of population. The SERs would be handed from the electricity producers, oil refineries and coal distributors to the fossil-fuel production companies as payment in addition to cash.

Because the SERs would be bought and sold between nations, it would be unfair if the currency used for transactions was the US dollar. A new currency would therefore be required, which would help minimise the use of the scarce resource, namely the emitting rights. Douthwaite says that the IMF would supply governments with the system's new money, ebcus, on the same per capita basis as SERs. The ebcus would be a one-off issue, which would fix their value in relation to a certain level of greenhouse gas emissions, and subsequently to the use of fossil energy. If a government used ebcus to buy additional SERs from the IMF to buy more fossil energy, the number of ebcus in circulation would not be increased to make up for the loss. Governments could also sell their SERs to their citizens, major energy users or other governments.

Douthwaite says that under this system countries would control their economies by adjusting the energy supply rather than the credit supply as they do today. Those that overused fossil fuel would find their economies shrinking, while those whose economies were sustainable could experience economic growth. Such a system would also have an effect on a country's currency. The power of big investors who threaten to take their money out of an economy because of its low currency value would be reduced, so governments would be able to pursue investor-unfriendly policies if they wished.

And, for the first time since President Nixon delinked the US dollar from the gold standard back in 1971, both the international and national currency would represent something real. Douthwaite concludes,

'Essentially the system is a version of the Bretton Woods arrangement which President Nixon destroyed except that the right to burn fossil energy has replaced gold and ebcus play the role of the US dollar.'<sup>11</sup>

Many have now picked up his idea and developed it further.

## The Terra

To encourage sustainability, Bernard Lietaer has proposed the introduction of a supranational currency, which he calls the terra (Latin for 'earth').<sup>12</sup> This currency would be complementary to conventional national currencies, operating parallel to them but not replacing them. Its unique characteristics would make long-term financial thinking automatically rewarding, while assisting in stabilising the world's economy.

Lietaer's proposal also reconnects the financial world with physical reality. Plans to bring this trade reference currency (TRC) into being are already being drawn up by the International Terra Alliance agency, which aims to stabilise the world economy and reduce risk for trading corporations.

The terra is defined as a standard basket of the most important commodities and services in the global market for which futures markets can be established, including oil, wheat and copper, and (in acknowledgement of Richard Douthwaite's theories) some standardisable services such as carbon emission rights. Because the terra would be fully backed by a physical inventory of commodities in this way, it would be a very robust international standard of value.

The terra is designed as an inflation-proof currency. Inflation is defined as the rise in the average price of a basket of goods and services, so by selecting the appropriate ingredients in the basket, the terra could be made inflation-proof. In addition, the cost of storage of the physical commodities would be applied to the bearer of the terra at an estimated 3.5–4 per cent per annum. This makes the terra a demurrage-charged currency (the opposite of a positive interest rate currency) and would ensure its use mainly as a trading device. As the bearer would have to pay to store or hold onto his or her terras, it would be beneficial to keep them in circulation, which in turn would benefit all. Lietaer proposes that the system should be run as a public service project, with profits earned through the demurrage charges used to fund other projects for economic development around the globe.

Essentially, the terra is thus an inventory receipt that can be used as a supranational trading currency. Its unique characteristics of being inflation-proof, combined with the implementation of a demurrage charge, would endow the currency with the following macro-economic advantages:



- The demurrage charge would realign financial interests with longer term concerns, eliminating the conflict between financial concerns and long-term priorities.
- Use of the terra would automatically tend to counteract the prevalent business cycle, thereby improving the overall stability and predictability of the world's economic system. When the business cycle is weakening, corporations, by definition, have an excess of raw materials. At such a point, they would tend to sell more raw materials for storage to the International Terra Alliance (which would purchase them with terras). The terras would then be used immediately by these corporations to pay their suppliers, so as to avoid demurrage charges. These suppliers, in turn, would have a similar incentive to pass on the terras as a medium of payment. The spread of the increased incentive to trade with this currency would therefore automatically activate the economy at low points in the cycle.

When the business cycle is in a boom period, corporations are short of materials and so would want to buy raw materials from the International Terra Alliance. This agency would act like a bank, so that the money it held would not be in circulation. As companies buy raw materials from the International Terra Alliance, so this would reduce the number of terras in circulation, thereby cooling off the economy during such high points in the business cycle.

In conclusion, rewarding longer term thinking best ensures a sustainable future. The terra is so designed to promote long-term development without adversely affecting short-term gains. When in October 2003 Lietaer announced his new monetary initiative to 250 attendees at the Future of Money summit in Denver, Colorado, he received a standing ovation. Takashi Kiuchi, former CEO of Mitsubishi Electric America, said of the initiative, 'Many have a wait and see attitude to innovative proposals of this nature, but they shouldn't with the Terra. The TRC reduces risk, stabilises the world economy and is a more cost effective approach for international business.'<sup>13</sup>

[Terra Alliance storehouse diagram \(at CPP\) to go here.](#)

There are many proposals for new currencies omitted here, and the reader may ask whether Bernard Lietaer's or Richard Douthwaite's proposal has more support. My current understanding is that while Lietaer would like Douthwaite's ebcu to be part of his basket of currencies, Douthwaite on the other hand is not a supporter of the terra, believing it is superior to have only one commodity backing a international currency.<sup>14</sup>

#### Notes

1 Good, I. J., Mayne, A., and Smith, J., eds, *The Scientist Speculates: An Anthology of Partly Baked Ideas*, New York: Basic Books, 1962.

2 See [www.globalideasbank.org/bov/bv-100.html](http://www.globalideasbank.org/bov/bv-100.html).

3 Shann Turnbull, 'Why Reducing Tariffs is a Mistake', *Australian Financial Review*, 7 February 1991.

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8 *Ibid.*

9 Michael Rowbotham, *The Grip of Death: A Study of Modern Money, Debt Slavery and Destructive Economics*, Charlbury: Jon Carpenter Publishing, 1998, p242, and Michael Rowbotham, *Goodbye America: Globalisation, Debt and the Dollar Empire*, Charlbury: Jon Carpenter Publishing, 2000, pp35–45.

10 Richard Douthwaite, *The Ecology of Money*, Schumacher Briefing No. 4, Totnes: Green Books, on behalf of the E. F. Schumacher Society, 1999.

11 Source of quote t.c.

12 Bernard Lietaer, *The Future of Money: Beyond Greed and Scarcity*, London: Century, 2000, and Bernard Lietaer, 'Terra: A Currency to Stabilize the World Economy', [www.margritkennedy.de/english/articles/bernard.html](http://www.margritkennedy.de/english/articles/bernard.html).

13 See [www.terrarc.org](http://www.terrarc.org) and [www.futureofmoneysummit.com](http://www.futureofmoneysummit.com).

14 Richard Douthwaite in a telephone interview with the author, 25 October 2004, and Bernard Lietaer in an answer to a question following his speech at the symposium Money Moves: Away From Greed and Scarcity, Steyerberg, Germany, July 2003.

## 15 Lessons Learnt From Currencies

*Progress, far from consisting in change, depends on retentiveness ... those who cannot remember the past are condemned to repeat it.*

– George Santayana<sup>1</sup>

This chapter addresses the issues surrounding currencies and summarises what has been learnt of their strengths and weaknesses through their use. The lessons learnt from complementary currencies will also be applied here to national currencies. Below is a list of the issues, the main points of which I go on to look at in more depth through the rest of the chapter. (See also Appendix 1 for a classification of complementary currencies and a condensed version of the information contained in this chapter.)

1.

Money can be created as and when it is required – nationally, regionally or locally.

2. Limiting ourselves to a national currency alone is unnecessary, as community-issued money is equally useful when trading with one another. With the use of technology such as smart cards that can deal with more than one currency, the move towards currency diversity will be made easier.

3. Money is created at the point when an issuer (a person, state, local authority paying wages and so on) buys goods or services and gives the seller an IOU. All money is therefore debt money. The debt is cancelled when the issuer of the money honours that obligation by accepting the money as payment, for taxes, rates

and the like. However, unhealthy money is that which has an interest-bearing component; none of the complementary currencies described in this book is interest-bearing debt money.

4. If they are not to be quashed or outlawed, local currency systems will need to be accompanied by a devolution of governmental power.

5. If a newly introduced community currency is likely to succeed to the extent of strengthening a local economy and reducing unemployment, then it is wise to prepare a case to defend it against legal attacks from central banks.

6. For any currency the critical factor is trust. The currency must be acceptable for a wide range of goods and services, otherwise it will be of limited value. It is the receivers of currency who endow it with value.

7. To enhance their use and acceptability, complementary currencies should be easily convertible to one another and redeemable for the national currency.

8. The velocity of money circulation is very important. The best way to create a rapidly circulating currency is to impose a fee for hoarding it that penalises only the holders of money.

9.

Controlling inflation is still essential. The amount of money in a system must be equal to the value of goods and services in that system.

10. Mutual credit schemes provide interest-free loans for small businesses.

However, they don't work well if there are lax informal controls, they are not quite as flexible as fiat money, and they should comprise a range of members with an optimum mix of skills and goods, excluding specialists. The success of such schemes depends on the trust developed and on the rigorous application of sanctions. There is exactly the right amount of money in a mutual credit scheme.

Regardless of whether the transactions in a mutual credit scheme occur between members of small-scale trading groups or between nations, traders should aim to have their account balances pass through zero as frequently as possible to prevent any tendency towards stagnation. Those who accumulate positive balances by exporting more than they import, or negative balances by importing more than they export, disrupt the whole system.

11. For complementary currencies to be acceptable to governments, a reform of the tax system is also needed.

12.

Money can be designed so that it predisposes users to be cooperative rather than competitive.

13. Money can be designed that does not widen the gap between the rich and poor.

14. Money can be designed that connects the future to the present in a manner that gives benefit to the current generation and allows for generational benefit to be passed down.

15. The success of a currency should never depend on the energy and enthusiasm of a small number of volunteers. It is important to design currencies that circulate without anyone having to 'push them along'. The self-interest of the users must be harnessed in some way.

### Issuance and Seigniorage

Money can be created as mutual barter, as fiat money, as debt with or without

collateral, or as warehouse receipts. It can also be spent into existence by an authority that promises to accept it for taxes or a business that will accept it for goods.

Because notes and coins are given their value by the community accepting them, it is the community that should actually own the money supply. Apart from being responsible for its design, the printer of the note does not endow money with value.

This has implications for national currencies. When banks issue money as a loan, the borrower usually spends it in the form of a bank cheque. This cheque is given value by the people who accept it, not by the banks that issued it. The claim that banks 'own' the debt is therefore quite wrong, for they would only do so if their owners were the same community of people that gave the money value – in other words, if they were community-owned banks.

Money can be printed and distributed by an individual, a community, a city, a country or group of countries, or an international authority, and it can serve communities of any size. Whatever the agency, it is that agency's community that is going to accept it for payment. Commodity-backed money can be issued by a private firm or a group of traders who pledge to honour all vouchers or tokens created.

Money can be also issued by a big employer who spends it into existence. For example, in 1932 the mayor of Wörgl paid council workers partly in local work certificates (see page 000), and in 1816 the Guernsey Island government paid the workers building the local market with Guernsey pounds (see page 000). These issuing authorities must, in return, accept the money when it is offered for

payment of taxes. When the mayor of Curitiba paid people to bring in sorted garbage, he had to honour his side of the bargain by accepting the tokens he issued as bus fares (see page 000). If he had not, the system simply wouldn't have worked.

It is also important to understand the concept of seigniorage, which is the profit made by issuing a currency. The best way to explain it is to look at our notes and coins. The Reserve Bank of New Zealand prints 'money' at low actual cost and sells it to the banks at its face value. This profit is called seigniorage. The annual seigniorage raised in New Zealand for distributing NZ\$2 billion worth of notes and coins is about NZ\$150 million.<sup>2</sup> As it costs NZ\$30 million to run the Reserve Bank and the rest of the profit goes to the government, the government's coffers swell by NZ\$120 million a year.<sup>3</sup> This process has full public approval because it is backed by legislation and the people know that the Reserve Bank is genuinely acting on their behalf.

So what is occurring when money, in the form of notes, is distributed by an organisation to its members to spend within the system? In the case of Ithaca HOURS, at first each new member was given a certain amount of HOURS to spend; this amount was later reduced and, later still, it was issued as a loan. The Ithaca HOUR user spends the money into existence. What the system's organisers didn't realise early on was that not all those who spent Ithaca HOURS would be honest enough to accept them for payment in return, which is why they changed the original gift to a loan.

In the case of commercial trade barter schemes, an interest-free overdraft is

given to all members who join. To protect the other members of the scheme, organisations such as the Wirtschaftsring co-operative in Switzerland insist on collateral before issuing the overdraft; they also carry out a credit check on the potential member (see page 000).

### Currency Diversity

As discussed above, small communities, large nations or international authorities can all issue money. The power to issue and control the country's means of exchange is such a fundamentally important one that it must be dispersed throughout the entire community. In Chapter 8 I explained that a holarchic approach is needed, because concentrating power in a hierarchic system is unhealthy and potentially dangerous.

Different currencies are useful at different levels and serve different functions. Local currencies are useful for local trade where national currency is in short supply. Members of a green dollar scheme, for example, can get their hair cut, buy food or have their house painted. Purchases can be quite large, especially in commercial trade barter schemes. National currencies are needed for trade on a national level, such as the purchase of fruit that grows best in another area of the country or paint that is manufactured elsewhere. Similarly, an international currency is needed for buying petrol, machinery and computers that are produced in other countries. When paying for projects, a mixture of currencies could be used for the various components – with road construction, for example, the labour might be paid in the local currency and the materials in national or international currencies. In this way, a wide range of currencies could operate together happily.

As discussed in Chapter 8, if our global economy is to work as a thriving living organism, adjusting rapidly as it responds to feedback and imbalance, then



within that global economy we must have many different-sized economies each behaving as individual holons, or whole parts. This requires that we live comfortably with a variety of currencies used for a variety of purposes. In fact, we do this already, as we live in an age of smart cards, loyalty reward points and book tokens, as well as computer systems and rapidly improving technology. It isn't a big step up from what we have now to one where our EFTPOS, smart card or debit card deals in dual or multiple currencies.

With diversity, healthy competition will take place between coexisting currencies. Where consumers have two currencies in their wallets, electronic wallets and bank accounts, they will choose to spend a plentiful local currency over a scarce national one. Retailers with plentiful local money will favour using local suppliers, and this in turn will strengthen the local economy. Strong small towns and small cities make up a strong nation. In Chapter 17 I will discuss currency diversity further, reasoning that in New Zealand a supranational Anzac dollar should coexist with a national New Zealand dollar and local community currencies.

### Reciprocity

In every type of complementary currency, money is created and later cancelled. This form of reciprocity, in which the circulation of money travels full circle, is seen most clearly in mutual credit exchanges, where debits are created and cancelled within the trading community. In a green dollar system, money is created and spent in the same action. When a member of a green dollar exchange buys a pot of jam and notches up a debit to the system, for example, he or she spends the money into existence and must honour the debt by contributing an

equivalent value to the system at some future time. Money is thus an IOU, a statement that you have given me something and I owe you something of equal value in return.

All money is therefore debt money, but the difference between healthy and unhealthy money is that the former is interest-free. Interest-bearing debt money is invariably issued for the profit of the agency that creates the money. As seen in Part 1 of this book, it causes a widening gap between net lenders and net borrowers, an ever-increasing debt burden on individuals, corporates and governments, and a pressure for the economy to grow in a manner favouring short-term investments that result in ecological devastation and social decay. The best way of ensuring that money is respected and has integrity is to issue it as an interest-free loan.

In the case of fiat currencies, the money that is issued may appear to be a credit, but in reality the person or government spending it into circulation must be prepared to accept an equivalent amount of money when someone offers it as payment. Local currency schemes that issue fiat money, such as Red Global de Trueque in Argentina and Ithaca HOURS in New York state, often originally gave it out in the form of credit to its members. While it appears that the organisers put money into the system by 'giving it away', in fact there was no free lunch for its users because they were obliged to receive the money for payment as well as use it for payment. This is true reciprocity. As the organisers of Ithaca HOURS found over ten years of operation, money is best distributed as an interest-free debt because the recipient then knows the debt must be repaid.

Money can also be spent into existence by governments, but in such cases it works because the government accepts the notes for payment of tax. What central or local governments spend into existence are actually tax vouchers that act as IOUs, so again the process is circular.

Bringing money into existence as a debt is a perfectly benign process. The sovereignty or community credit proposal, which originated in the US in 1989 and has since spread to Canada, Australia and New Zealand, is a scheme to create interest-free loans for capital works needed by local authorities. When interest is charged, councils – and hence ratepayers – end up paying two or three times over for amenities. However, if there was no interest to pay, the repayment time would be considerably reduced and the cost to ratepayers much lower.

The proposal suggests that the government be allowed to create the money as an overdraft at the central bank and be charged the actual cost for doing so, but without interest. Thus, public works such as sewerage schemes, water reticulation upgrades and the building of parks could be financed at minimum cost. Similarly, communities can also exercise their democratic right by issuing their own currencies and creating interest-free loans to pay for local labour and materials used in community projects.

### Devolution of Power

If currencies are to be issued at all levels of human organisation, then central government will end up with less power. To many central bureaucrats and politicians this is very threatening, and so they tend to oppose such devolution. However, with an organic system of governance as suggested in Chapter 8, power would be devolved to more appropriate levels and services more evenly spread

between local and national bodies.

Kerry Marshall, former President of New Zealand's Local Government Association, says of local government that one size doesn't fit all.<sup>3</sup> He advocates a great deal of variety in the application of functions, with the type and level of devolution dependent on the needs of each area. So in one region the fire service might be devolved, in another the health service, and in a group of regions housing provision.<sup>4</sup> New Zealand's Local Government Amendment Act 2001 allows for just such a diversity.

Similarly, currency diversity is also related to the fear governments have of the informalisation of the economy, because to allow for such diversity is a further acknowledgement that central control will be reduced. This fear is evident in cases where governments have quashed successful complementary currency schemes in the past, as happened with *bia Kud Chum* in Thailand (see page 000), with the *Wära Barter Company* in Germany (see page 000), with *Wörgl* in Austria (see page 000), and with the Depression-era scrip in the US (see page 000).

There is another more fundamental reason for not allowing the control of the money supply to remain solely in the hands of private banks: those who issue money also control the size of the total money supply. When banks effectively decide how many loans they will give out and how fast lending will increase, they can use this power for their own purposes. In New Zealand today, where the private banks create 98 per cent of the money supply and set their own fractional reserve requirement, they consequently hold most of the central power. The Reserve Bank of New Zealand does not even know how much money is in circulation all the time, because the commercial banks keep some information to themselves.<sup>5</sup> Even if the Reserve Bank decided how much new money was to be spent into circulation by government, as proposed by the economists Joseph

Huber and James Robertson,<sup>6</sup> it would be hard to build in sufficient checks and balances.

## Legality

For historical reasons, most countries have a law in place stating that the currency issued by their central bank is to be the only legal tender in that country. In New Zealand, for example, Section 25 of the Reserve Bank Act 1989 says that the Reserve Bank shall have the 'sole right to issue bank notes and coins in New Zealand', while Section 29 mandates stiff penalties to those people who print notes. However, the Act doesn't prohibit electronic currencies, tokens based on the value of an hour's work or clay tokens.

If the issuers of a newly introduced community currency believe that is likely to succeed, then they should prepare a legal case to defend it in the event they are challenged in court. In Italy, the creator of the simec, Professor Auriti, was ready with his court case (see page 000), as was Paul Glover in Ithaca, creator of the HOURs system (see page 000), and so their currencies were able to continue. The inventors of Thailand's bia Kud Chum, however, were not legally prepared (see page 000), and nor apparently was the mayor of Wörgl in Austria (see page 000), so these currencies did not survive.

## Acceptability and Trust

At every stage, the society that will use the money being issued must believe in it and continually endow it with value by accepting it as payment. Just a few

defectors or doubters are enough to put a whole system in jeopardy. The best thing about commercial bank credit is that everyone accepts it. For all the failings of money created by these banks, when was the last time you turned down someone who paid you with EFTPOS or a bank cheque?

Wörgl Work Certificates were successful because they were acceptable as payment of property taxes and also because they were backed (see page 000). But while Wörgl schillings were accepted in 1932 by all of the town's merchants except the post office, a major weakness of many of the first modern complementary currencies is that consumers can buy only a limited range of goods with them. Most household expenditure goes on rent or a mortgage, insurance, telephone calls and rental, electricity, food, appliances, clothing and transport. But if the services offered by the community currency are limited to massages, homoeopathy and printing, the currency will make little impact on the overall economy. This problem has been solved to a certain extent by the commercial barter companies, whose goods and services cover a wider range than those offered by green dollar systems, and where there is a balance of members in each category (see page 000). Similarly, when it existed, Argentina's system of barter clubs included trade in food, which was an important reason for its success (see page 000).

The basis of trust in a currency is the belief that it can be redeemed for goods or a national currency to the same value. When a private firm issues vouchers, for example, people will not buy them unless they trust the company to supply goods on presentation of the voucher. The delicatessen owner in Massachusetts who raised capital by selling vouchers, or deli dollars, for future meals (see page 000) was able to do so because his customers believed in him. They believed that his service would be there in the future, just as it had been in the past – and

apparently no one spread rumours to the contrary. Similarly, when national currency was in short supply in New Zealand between 1850 and 1880, local businesses sold tradesmen's tokens that circulated because people believed they would be redeemed for goods.

Green dollar systems work best when the system is well established and members believe in it. People will sell their goods trusting in their belief that their hard-earned green dollars will some day be of use to them in the system. A green dollar community also needs to be of an optimum size, with a wide enough range of goods and services to make it work, but not so many members that they become anonymous and therefore cannot trust one another. An ongoing problem with green dollar schemes is their continuing viability. Since about half of the systems in New Zealand disappeared between 1999 and 2001, the trustworthiness of the remaining green dollars 'money' may be suspect.

Sometimes trust grows fast, especially if the currency is distributed by a reliable authority and is acceptable for taxes, food and rent. If a currency is also designed so that users have a self-interest in widening the circle of people who accept it, trust will certainly grow quickly. Similarly, a currency with a circulation incentive turns currency users into currency promoters, because every user wants to spend his or her non-hoardable money. The holder of the money thus has the responsibility of discovering new buyers who will accept the currency, and they in turn become new advocates for it. Community trust in Ithaca HOURS grew over a decade. Not only are HOURS now accepted as payment by hospitals, landlords and cinemas, but they have even become attractive to burglars!

In the case of a privately issued currency, the issuing firm must accept the currency as payment. That is, the currency has a goods base. Generally, however, such vouchers or tokens have only limited circulation. Examples of private

currencies are bus tickets, record vouchers and Fly Buys points. Private firms have also been known to pay workers with a currency redeemable in the goods and services that firm produces or provides – as with the owner of a disused coal mine in Wära, Germany, in 1932, who paid his workers with vouchers that then circulated in the township as money (see page 000). After being accepted by local merchants, the notes were eventually redeemed for coal by the original issuer.

To remain trusted, money must continue to be widely acceptable to a range of people and agencies. The most widely acceptable currencies are those that are good for paying taxes, whether national or local. The currency then has what is called a tax base. Examples of complementary currencies with a tax base are Austria's Wörgl, the Guernsey pound, the tallysticks of England's Henry I, and the bracteates that were used in medieval Europe.

Loss of trust in a currency can happen suddenly and for a variety of reasons. The notes may not have been properly signed or professionally designed, and so be open to counterfeiting. Or the currency may not have been promoted by its issuers when it was introduced. People can also easily lose faith in a currency when too much is issued and prices rise. At such times there can be a run on banks, leading to recession – as happened with the Wall Street Crash in 1929. Sometimes a currency fails because people have had a bad experience with it and this stays fresh in their memory. When there is little faith in a currency it tends to depreciate and become known as rags or shinplaster. An example of a currency that failed in this way was the FitzRoy's debentures that were issued without permission by Governor Robert FitzRoy in New Zealand in 1844 (see page 000).

Convertibility



One of the weaknesses of local currencies is their general lack of convertibility to the national currency. To enhance their acceptability, local currencies should be redeemable for a national currency. In 1932, the mayor of Wörgl, Austria, bought 20,000 Austrian schillings and used them as backing for the 20,000 local schillings he issued (see page 000). As a result, any citizen could redeem the local money for national money if necessary. In contrast, some of the US emergency scrips issued during the Depression were not backed by the national currency, making convertibility impossible and thus reducing their acceptability.

Complementary currencies must also be able to talk to one another; that is, they must be easily convertible one to the other. While money should be easily redeemable for other currencies, this redeemability should not be a source of profit for individuals or private firms. The complementary currency can, however, be designed so that there is a disincentive to redeem it for national currency, as in the case of Germany's *chiemgauer* (see page 000).

If the value of a complementary currency is linked to the national currency, its value will rise and fall with that of the national currency. The Wörgl schilling was backed by the Austrian schilling and was redeemable for par minus 2 per cent. Had the Austrian schilling dropped in value, the Wörgl schilling would have dropped also.

Likewise, if a currency is backed by a commodity, its value will fall if the value of the commodity falls and rise if the price of the commodity rises. During the 1990s, the value of many commodities fell almost 20 per cent.<sup>6</sup>

Commodity-backed currencies work in the same way as warehouse receipts

that are issued for a commodity. In ancient Egypt, for example, warehouses issued ostraca (pottery tokens) as a receipt when farmers brought their corn in to be stored (see page 000). These tokens circulated as money and were given value by the people because they believed that the warehouse would redeem them for corn. Similarly, gold miners in New Zealand in the 1880s used to take their gold into the bank and receive receipts for it, which then circulated as money. With Bernard Lietaer's proposal for the terra, an international currency backed by a basket of commodities (see page 000), the value of commodities is gradually declining, so the value of the terra will decline too.

The ultimate fall in the value of commodity money is when the promise of redeemability vanishes. Tokens issued by a firm are backed with real goods, but if that firm then goes into receivership the tokens are valueless. New Zealanders who held Levenes vouchers found this out to their distress in 1996 when the company went bankrupt and their vouchers became worthless.

Some proposals for new systems suggest that currencies should be backed by land. Because there is a finite amount of land, in the absence of adequate land value taxation its value has always increased over time. So the value of the money would increase too. This is why banks use land as the prime collateral for loans.

### Velocity of Circulation

When thinking about stable currencies, we have to consider another, often neglected, factor – the velocity of circulation. The speed at which money circulates is very important, because faster circulation indicates an increased number of transactions and hence brings greater benefits. In Wörgl, Austria, in 1932, for

example (see page 000), the demurrage-charged money circulated eight times as fast as the national currency, bringing with it eight times the benefit in terms of job creation and prosperity. In contrast, if the circulation is too slow the currency begins to stagnate. Just as blood is a vitalising medium in our bodies, so money by its circulation keeps the economy alive.

The best way to create a rapidly circulating currency is to impose a fee for hoarding it. One way of doing this is to design money so that it is invalid if kept past a certain date, as with New Zealand's Fly Buys points, which are valid for only three years. Another method of speeding up circulation is to create demurrage-based money, which requires the payment of a circulation incentive or demurrage fee on a certain date. Because people would rather avoid paying such a fee, it acts as the motivator to keep the money moving. When people run out of everyday necessities on which to spend their demurrage-based money, they pay their taxes early or invest in more long-term items such as house improvements, tree planting or works of art and architecture instead.

### Preventing Inflation

Inflation is a rise in the average price of a basket of goods and services, which over time erodes the value of money and cheats us out of our savings. Inflation in New Zealand is evident in the fact that NZ\$1 in 1950 was worth only 4¢ in 2000.

Prices are affected by the supply of money: if there is too much money around, sellers put up their prices. But as we saw in Chapter 1, the unhealthy interest-based money system we currently have demands that the money supply keeps growing, and at an exponential rate. It is therefore clear that interest-charged money is inherently inflationary. In contrast, complementary currencies are issued interest-free and don't demand this constant growth in their supply. In

such systems inflation is therefore much easier to monitor and control.

Mutual credit schemes such as the green dollar create exactly the right amount of money for the transactions that take place. Theoretically, unless too many interest-free loans are issued, there can be no inflation in a mutual credit scheme because the sum of all members' balances at any time is zero. Thus the money supply expands and contracts according to the volume of trade and is always sufficient for the level of exchanges taking place. Following on from this reasoning, it makes sense that there will be no inflation in a system if there is the right amount of money for all the trading that takes place. If complementary currencies use up only the excess capacity of local businesses, they won't be inflationary.

When currencies have a circulation incentive, the challenge for the organisers is to issue the correct amount of money and to adjust the level in circulation quickly to avoid inflation. With the Wörgl scheme in Austria in 1932, for example, an average of 5000 local schillings were circulating more than 400 times a year, creating 2 million schillings worth of goods and services. The sheer speed of circulation surprised the organisers, as originally 32,000 schillings had been issued and money had to be withdrawn quickly for fear of inflation. Many notes were also taken away as souvenirs.<sup>8</sup>

Obviously, the smaller the area of a fiat currency's circulation, the easier it is to monitor. The money supply needed for transactions in a large economy like Europe or the US will therefore be considerably harder to estimate than that for a small town like Ithaca. In his book *Funny Money*, David Boyle noted that Ithaca HOURs creator Paul Glover had to cycle round the town to check that there was the right amount of currency in circulation!<sup>9</sup> Unlike the case of Ithaca, there is no way a central bank can know what individuals really want to do in the way of

trading. We therefore need decentralisation so that there is a variety of issuing banks operating at every level. This calls for ongoing negotiations between organisations in control of the money supply so that inflation is kept in check. With a good balance between cooperation and competition, these local monetary authorities should, as a group, be able to develop a self-correcting mechanism for keeping inflation at bay.

### Financing Investments

It is often claimed that parallel or complementary currencies are unable to finance investments. While it is true that neither green dollars nor time dollars are usable for big-ticket items, partly because they are so minor in scale and partly because they are not bankable, certain complementary currencies are not only able to fund long-term investments but can actually positively encourage them.

Let's take the case of a regional currency with a circulation fee built in. With a penalty charge for hoarding, the value of this money does not increase over time. Because it has lost its advantage over goods in this way, it will not accumulate and cannot theoretically be used for financing investments. While savings accounts in such a system will be exempt from demurrage and therefore will hold their value, they will not grow as the money is interest-free. So instead of investment coming from such savings, it must come from elsewhere. This is where the anti-hoarding mechanism comes into effect, because once people in such a system have bought

their essentials for daily life, they tend to invest in projects that bring long-term benefits.

It thus becomes 'economic' for companies and individuals to think long term, and money capital is transformed into goods capital – goods that bring long-term benefits. Two demurrage-charged currencies in history – the ostraca of ancient Egypt and the bracteaten of medieval Europe (see page 000) – saw such long-term investment and stability.

However, it should be noted that if there were another competing currency available that carried no penalty for hoarding, savings would be diverted into that currency. So, if we try to do two different things with a currency – encourage it to circulate fast and encourage it to become a means of building capital by giving rewards (interest) for saving – these two functions actually work against each other. It is therefore important that community currencies with a demurrage fee concentrate exclusively on the key function of money – in other words, as a means of exchange.

The missing ingredient with community currencies has been With most complementary currencies, what has been missing is a community-owned bank that will both accept the currency in its own right and issue interest-free loans for publicly mandated works. Community projects funded in this way will cost ratepayers much less and be paid off much quicker, because they do not include an interest component.

If citizens decide to build a sewerage scheme, why should they pay as much as three times extra for having it now rather than later? The argument that people should pay this premium reveals an inadequate understanding of what money is. Money can be spent into existence by consenting communities. There is no scarcity of money, as long as the amount of new money does not exceed the value of goods and services to be traded. To say there isn't enough money is like saying we can't print enough tickets to fill a stadium. There is, in fact, an abundance of money; all we need is the tickets, the tokens and the symbols.

Creating money in this way allows for the generational benefit to be passed down. So instead of inheriting debt created through the issue of interest-charged money, future generations will inherit a cumulative legacy of wealth (called the social credit of a nation or community) in the form of public amenities.

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by Governor Robert Fitz



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Even if the Reserve Bank decided how much new money was to be spent into circulation by

## Tax Issues

One of the most commonly expressed reservations about the growth of parallel currencies such as trade dollars is that income tax will be avoided and hence government revenue will decline. It seems that whenever reform occurs and one problem is solved, another will arise, but this is no argument against implementing the reform. For example, although the passing of the Paid Parental Leave Act in 2002 exposed the fact that non-working parents do not receive any government money for parenthood, the legislation was nonetheless a significant advance on the previous situation. There is no doubt in my mind that the rise of complementary currencies will quickly expose a faulty tax system, but this is no excuse for failing to introduce these currencies in the first place. In fact, we should regard it as fortunate that the introduction of healthy money will expose the inherent weakness.

Most people assume that the bulk of government revenue has always come from income tax and will continue to do so. But income tax is a relatively new imposition. It was first introduced in 1844 in the UK, when the private banks were demanding some sort of security for their loans to government. The US didn't introduce income tax until 1914, the year that the newly formed Federal Reserve Bank had been given the sole right to issue and control the country's money supply. In effect, income tax is therefore a form of collateral for banks. Plenty of other taxation systems have been used in the past, and in Chapter 16 I discuss

possibilities for reforming our current system. Suffice it to say here that in contrast to the difficult-to-administer income tax regime, a complex and balanced network of money systems favours taxes that are easily administered and simple, like land value taxes.

But until we have some radical tax reform, how could a sizeable regional currency be fair to central government? In the case of time dollars, these have been exempted from income tax in the US on the grounds that they are service credits, measured in hours, and so do not actually represent money. With other complementary currencies, advocates argue that they should be accepted as payment for income tax. One foreseeable problem of this is that if a regional currency circulated eight times as fast as the national currency, then the newly found prosperity of a region could well be stripped away from it by the Inland Revenue Department. With regards goods and services tax (GST), mutual credit systems are GST neutral since as a group members don't owe anything – the GST payable by members is exactly equal to the GST to be refunded.

There is also the problem of welfare benefit abatement. New Zealand's Work and Income Department (WINZ) currently recognises green dollars as income, so all benefits (including accommodation allowance) are reduced to the extent the beneficiary earns money. As more local currencies spring up, both the Inland Revenue Department and WINZ will have to deal with the issues.

## Conclusion

Obviously, complementary currencies will not solve all our problems overnight. In order to ensure that we choose systems that work to best effect, complementing one another, we have to look at the lessons learnt from the past. By building on these experiences we will be able to come up with a healthier, sustainable way of life.

In the final chapters I look at some of the practical issues concerning the implementation of complementary currencies before concluding with a look to the future.

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We can only speculate why central governments use such a heavy hand. Maybe they seriously believe there should only be one currency for the country. It is clear that the commercial banks are protecting their right to create the bulk of the national currency and that central banks wish to retain all the seigniorage profits from printing the national currency.

## Conclusion

Complementary currencies won

1 George Santayana, *The Life of Reason, Vol. 1*, New York: Charles Scribner's Sons,

1905.

2 Michael Reddell of the Reserve Bank of New Zealand, in an interview with the author and Margrit Kennedy, 24 January 2002.

3 *Ibid.*

4 Kerry Marshall in a telephone conversation with the author, 20 April 2000.

5 Information gained from an interview with Michael Reddell of the Reserve Bank of New Zealand, October 2000.

6 Joseph Huber and James Robertson, *Creating New Money: A Monetary Reform for the Information Age*, London: New Economics Foundation, 2000.

7 Richard Douthwaite, *The Ecology of Money*, Schumacher Briefing No. 4, Totnes: Green Books, on behalf of the E. F. Schumacher Society, 1999, p44.

8 Bernard Lietaer in an email to the author, 6 December 2001.

9 David Boyle, *Funny Money: In Search of Alternative Cash*, London: Harper Collins, 1999.

## Policy Implications of Healthy Money

*Give me the private ownership of all land and will I move the earth? No; but I will do more.  
I will undertake to make slaves of all the human beings on the face of it.*

– Mark Twain<sup>1</sup>

As touched on in previous chapters, interest-free money systems lead to the problem of land speculation, which arises so quickly that land value taxation must be applied at the same time as the reforming money systems. In her 1995 book *Interest and Inflation Free Money*, Margrit Kennedy argues for land taxes to be introduced at the same time as changing from a system of interest-bearing money to one of money bearing a circulation fee. She is one of a growing number of people who advocate both the democratisation of money and the democratisation of land. In the first years of the 21st century, which were characterised by declining interest rates and a lack of investment alternatives, there was a boom in house prices (which equate to land prices) all over the world. This could have been prevented by the implementation of a land value taxation.

There are, of course, other policy implications of healthy money systems aside from taxation, and other policies advocated by people who support monetary reform. However, I do not plan to visit these in this chapter as this is a book that focuses primarily on money systems. New money for healthy communities also requires a new emphasis on community banking, and this topic is addressed in Chapter 18. The land value taxation policy I discuss in this chapter is directly related to money systems.

## Taxation Policies

Before I discuss the different types of taxation, I would like to state my assumptions on what taxation should do:

1. Be simple to administer. Tax should be difficult to avoid, and there should be no complicated tables and formulae. The test of simplicity should be the cost of administration.
2. Not be regressive. Taxes should not target the poor more than the rich.
3. Encourage desirable activities and discourage undesirable activities.

## Land Value Taxation

Because land is finite in quantity and the Earth's population is increasing, there is a pressure to buy land, and this in turn raises its value. In an interest-free money system that lacks a land value tax, land speculation will inevitably soar and land and house prices will rise correspondingly. How do we ensure that with low or zero interest rates money is not directed further into speculation in land?

One of the most enduring political movements of the last century has been the land value taxation movement. A San Francisco printer called Henry George came up with a solution to poverty caused by land ownership inequities in his landmark 1879 book *Progress and Poverty*. This lifted the spirits of many readers at a time when economics was generally regarded as a dismal science, because George saw the discipline as 'radiant with hope'.<sup>2</sup> The book was reprinted in New York and London, and in no time at all George was invited to speak in New York, Ireland and England. He visited Australia in 1880, stopping off in Auckland to meet

Governor George Grey, who became a follower of Henry George's teachings. Henry George became a very well-known and popular public speaker, influencing such people as novelist Leo Tolstoy, Professor Dewy and playwright George Bernard Shaw. The book eventually sold 2 million copies.

In his 1883 book of essays *Social Problems*, George says, 'All men have equal and inalienable rights to the use of the earth,' and argues that to cure social disease we must get to the roots of the problems, not use timid measures such as limiting the amount of land one person can own.<sup>3</sup>

Land, the source of all material wealth, is in limited supply. No one can really own the land because it is part of us and will still be there when we die. Therefore, land is unlike any other commodity. It is distinct from finance, capital or labour. Supporters of a land value taxation advocate that if people buy land they should also pay an annual rental to the public for the privilege of having a monopoly over the use of that piece of land. This payment has been variously called a site rental, ground rental or land tax; I will use these terms interchangeably here. Henry George thought land value tax should replace all taxes, and his followers described their movement as the 'single tax movement'.

Continuously rising land prices are a source of much wealth for speculators. Any home owner who has traded up will know that the road to material success lies in owning land – once you own land, the price usually rises. And because it is the land that appreciates, not the buildings on it, the recipe for success is location, location, location. This lesson is not lost on the corporates. A large proportion of corporate assets – often as much as 40 per cent – is in the form of real estate holdings.



But, like other assets, real-estate ownership is unevenly spread. Susan George puts this in an international perspective in her book *How the Other Half Dies*, saying, ‘The most pressing cause of the abject poverty which millions of people in the world endure is that a mere 2.5% of landowners control nearly three-quarters of all the land in the world.’<sup>4</sup>

This imbalance is one obvious reason for the imposition of a land tax, but another is that many people across the world traditionally have a different concept of land. To them it has a spiritual meaning, embodying the stories of their ancestors, and it is seen as a gift to be passed on from generation to generation. At the Powder River Council in 1877, Chief Sitting Bull of the Dakota Sioux foresaw the conflict of interest between the native Americans and the immigrants who were moving west across the continent:

*Behold my brothers, the spring has come; the earth has received the embraces of the sun and we shall soon see the results of that love!*

*Every seed has awakened and so has all animal life. It is through this mysterious power that we too have our being and we therefore yield to our neighbours, even our animal neighbours, the same rights as ourselves, to inhabit this land.*

*Yet hear me, my people, we now have to deal with another race – small and feeble when our fathers first met them, but now great and overbearing. Strangely enough they have a mind to till the soil and the love of possessions is a disease with them. These people have made many rules that the rich may break but the poor may not. They take tithes from the poor and weak to support the rich who rule. They claim this mother of ours, the earth, for their own, and fence their neighbours away; they deface her with their buildings and their refuse.’<sup>5</sup>*

In New Zealand, Hiwi Tauroa, a former race relations conciliator, argued that

Crown leasehold land tenure could be the mechanism for reconciling the philosophies of Maori and Pakeha in law and resolving the economic plight of both. In a newspaper interview he pointed out the differences between Maori and European concepts of land ownership, saying, 'The philosophy of Maori elders is that you do not own the land, you are only the custodians. Ownership remains within one family or tribe and is handed on to the next generation. The Pakeha philosophy is the reverse. That is, you own land. It is a commodity to be bought or sold.'<sup>6</sup>

One of the first campaigners for land tax in New Zealand was the Maori leader Rolland O'Regan, a Wellington surgeon and father of Ngai Tahu kaumatua (elder) Sir Tipene O'Regan. Rolland O'Regan made a good case against freehold ownership of land in his book *Te Ara Tika*, saying that after centuries of Maori communal ownership of land, 'Freehold land tenure caused the death of Maori society as it had been.'<sup>7</sup>

So what are land value taxes? In their most well-known form, they are the rates paid to the local council on the *unimproved value* of a property. Land owners pay rates on the value of the land and not on the buildings or other improvements. But many district councils, working on different assumptions about where taxes should come from, now impose rates on the *capital value* of the property – in other words, the land value plus improvements. In such a system those who improve their property are thus penalised.

Clifford Cobb, Director of the Henry George School in Sacramento, writing in the newsletter *The Indicator*, says:

*Most taxes fall on work. It makes little sense to tax that which should be encouraged. It makes good sense to tax that which is in limited supply like land. We should tax what we want less of and subsidise what we want more of. Our natural resources are taxed lightly or not at all. Because we don't tax land and resources, asset speculators buy them up and rent them back to us.<sup>8</sup>*

The best part about land value taxation, says Cobb, is that no matter how much you tax nature's assets, they don't disappear:

*Because the rent a landowner can charge is fixed by market conditions, an increase in land value rates cannot be passed on to the tenants. That is why, unlike taxes on things that are produced by human effort, fees on the ownership of land and natural resources fall entirely on owners. Since half the value of land is generally held by the richest 5% or 10% of the population, this type of tax is far more progressive than any income tax in the world.<sup>9</sup>*

Cobb argues that the most valuable asset provided by nature is not petroleum, minerals or wood products, but urban land. When he headed a study in California on the feasibility of shifting entirely to resource taxes, he found that land value rates alone could generate nearly twice as much revenue as all existing taxes combined and that around 90 per cent of that would come from cities. Private enterprise, he said, must not include ownership of the elements of life.

It is commonly suggested that land taxes should be imposed at the rate of around 8 per cent, because the tax needs to be high enough to reduce land speculation and hence prevent a rise in land prices. Under an 8 per cent regime, the tax on land valued at \$100,000 would be \$8000 a year.

Bob Keall, secretary of both the Resource Rentals for Revenue Association in Auckland and the New Zealand Land Value Rating Association, has been writing

and lobbying on the topic of land taxes for years. He advocates that land tax imposed at the local level should be tax deductible; so if you pay \$8000 in rates this should be deductible from your income tax liability. This would provide a critical link between central and local governments, giving the latter more opportunities for revenue raising, although there would be less income for central government. Such a policy would therefore work well in conjunction with the devolution of central government functions.

While it is now agreed by many that land value taxation should be introduced alongside monetary reform, until recently there has been considerable suspicion between supporters of the two reform movements, each claiming that they have sole rights to the truth. In 2001 I emailed a British Georgist (supporter of the theories of Henry George) on the subject, who replied:

*You ask if there is anyone who thinks in terms of both Georgist and monetary reform terms? The answer, at least here in the UK is yes, and the number is growing. I for one, an old Liberal Party hack, now Liberal Democrat, was weaned upon the policy of SVR [site value rental]. As I stumbled over the bones of the old Social Credit movement I realised that in fact they were allies, though you wouldn't have thought it from the animosity. As I see it the Georgists argue that the increase in the value of land is brought about by the activities of the community, and therefore rightly belong to that community, and not to the one who claims ownership but does nothing to raise that value themselves. Money, I would argue, is in exactly the same position. It is the actions of the community in creating wealth – goods and services – that give value to the money created.<sup>10</sup>*

#### Advantages of Land Value Taxation

As discussed above, land value taxation stops speculation in land, and therefore

slows down the increasing gap between rich and poor. When set at an optimum level, land value rating will reduce the price of land, putting it more within the reach of first-time home buyers. The imposition of land taxes will reduce the taxation that currently falls on productive enterprise and also simplify the machinery and expenses of government.

By socialising only that which belongs to society – namely the rent of resources – and leaving inviolate that which belongs to the individual – namely the rewards of labour and thrift – the proposal advances true equality of opportunity.

### Arguments Against Land Value Taxation

Opponents of land value tax are those who benefit from the current system – speculators, landlords, users of huge amounts of resources and, of course, the banks. One of their main arguments against it is that it will unfairly shift the burden of taxation onto farmers who own large tracts of land.

Green parties have also struggled with the concept of land value rentals, because some fear that they will encourage development of conservation land and penalise those who use land for the common good, including owners of historic buildings, conservation land, schools, land trusts and parks. This objection is simply solved by ensuring that proposals do not include imposing taxes on land that is already being used for the common good, or is turned over to that purpose in the future.

Other objectors to land value taxation are those who are married to the concept of higher income taxes and can't rethink the issue. They advocate taxes that treat the symptoms but not the cause of inequity, including a wealth tax, an inheritance tax or a capital gains tax.

#### Other Resource Rentals Taxes

Ecological tax reform is a simple idea: shift taxes off work and enterprise, and put it onto waste, pollution and scarce resources. Those who waste and those who pollute pay more. Clean businesses pay less and everyone pays less income tax. Such an idea is common sense if we want a sustainable economy, and it's happening now in many European countries. For example, there has been a water pollution tax in the Netherlands and France, a toxic waste tax in Germany, a waste charge in Denmark, a carbon dioxide tax in Norway, Sweden, Finland and Denmark, and nitrous oxide and nitric oxide taxes in Sweden. In addition, there have been taxes on resources – for example, on heating oil, diesel and gas in Germany, and on sulphur in Sweden.

In New Zealand, the Green Party put in a very comprehensive 82-page submission to the New Zealand 2001 Tax Review in which they argued that it is time to change the system from taxing labour to taxing resources and polluting activities. Furthermore, they argued that the imposition of a tax on any activity will tend to reduce the scale of that activity.

In Auckland,

Bob Keall has also proposed taxes on many other natural resources other than land that are in limited supply. After local authorities progressively introduced uniform annual charges for water, sewage and refuse, which make up a growing percentage of local authority revenue, Keall turned his attention from land taxes to taxes on the other natural monopolies. These monopolies, or commons, include, he says: 'rights to land, water, airwaves, minerals, fisheries, hydro-power generation and supply, any public utility such as a port, airport or the monopolistic right to reticulate wires, pipes, rails, roads and the like; even the right to pollute'.<sup>11</sup> This would mean, for instance, the introduction of a resource rental tax on fishing quotas and a carbon tax. The imposition of resource taxes will encourage the production of more durable products and reuseable packaging, as well as the use of recycled materials.

Such taxes, Keall says, would also neatly circumvent the problem of reacquiring state assets that were sold under previous governments. Writing to the *New Zealand Herald* in 1996, Bob Keall said:

'It is not necessary for any government to repurchase any state asset, natural resource, natural monopoly or public utility in order to achieve exactly the same end. Charging a market resource rental in lieu of tax achieves the same ultimate objective without the cost of repurchase.'<sup>12</sup>

Income Tax and GST are expensive to administer

The most common taxation system imposed by governments today is income tax, although c

ountries have not always relied so heavily on it as a way of raising revenue. For

many centuries, for example, England managed with land taxes and excise taxes and tariffs instead. Income tax is a relative newcomer, which in most countries was introduced around the time that private banks started lending money to governments and wanted governments to impose income tax as a collateral to back the debt.

Income tax has a great many disadvantages. For a start, it can easily be avoided and the system is expensive to administer. Also, a long schedule of tax-deductible items must be drawn up and kept constantly under review. This tax-deductible schedule can be influenced by those in power and has major effects – for instance, since the interest paid on loans for income-earning assets is tax deductible, this is a boon for banks, but not for the sustainability of the planet.

After New Zealand's Labour government legislated for a rise in income tax for the top income earners in December 1999, the Inland Revenue Department estimated that these top earners would avoid paying NZ\$250 million in tax. 'Tax experts,' said an article in *The Dominion*, 'faced a near-impossible task devising anti-avoidance rules.'<sup>13</sup> When the top income tax rates were increased on 1 April 2000, a tax consultant told National Radio's *Morning Report* programme that he believed tax payers would avoid paying about half a billion dollars worth of income tax over three years. In the same programme, the Treasurer, Dr Michael Cullen, said, 'I'm afraid protection of the tax base is a continuous game of cops and robbers, and the robbers usually win.'<sup>14</sup>

Given that income tax is difficult to administer and that it discourages human effort, it has little merit and should be replaced by fairer and simpler taxes. Goods and Services Tax (GST) is also difficult to administer. The wasted energy, time and money now spent on both of these taxes include thousands of hours devoted to calculating, record-keeping, filing returns, keeping receipts, paying bills and earning more to pay for accountants – not to mention the time spent working out



ways of avoiding paying tax.

### Tax on Hoarding Money

As discussed in Chapter 12, businessman Silvio Gesell argued for a change in the design of money to ensure its unimpeded circulation. Specifically, he advocated placing a 5.2 per cent per annum charge on money, or validating each banknote every month by attaching a stamp to it worth 0.1 per cent of the note's value. Today, this validation could be done electronically. This tax is not regressive as it falls on those who hoard money, not on people who spend most of their income; it falls on the possessors of money who do not pass it on, not on the poor. The practical effect of this is that people will invest in real wealth instead of accumulating wealth in the form of money.

Such a circulation tax would be hard to avoid and inexpensive to administer. It would have profound economic and social consequences, as it would bring hoarded money back into circulation. Whereas inflation penalises everyone, this tax penalises only hoarders. And as explained in Chapter 12, personal saving would still be possible and inflation could actually be kept at zero.

The main disadvantage of such a system is that it would be difficult to implement at a national level since governments are currently less powerful than banks. It would, however, be possible to introduce it at a local level. The other drawback to this tax is that it does not raise much revenue.

### Tax on Taking Money Out of the Country

If each country imposes a tax on those who take its money beyond its borders, then no one would be able to speculate on its currency. This was done with considerable success by Malaysia to avert the economic crisis that was affecting much of the

region in the late 1990s (see Chapter 8). Such a taxation is in line with the ecological principle of managing boundaries and is preferable to imposing a financial transaction tax, which is regarded as unenforceable because 90 per cent of transactions take place between banks.

#### Policies Leading to Decentralisation of Power

A discussion of policies to devolve power from central to local government has already been dealt with in both chapters 8 and 15.

In conclusion, t. has proposed funding it through financial transaction tax and partly through government issuing

The use of land must be democratised just as the use of money must be democratised, *and at the same time*. It should not be possible to speculate for private gain on public resources. Land value taxes should be offset against income tax. Other policy changes needed in conjunction with monetary reform relate to managing the country's boundaries and moving towards many centres of decision-making.

1 From an 1887 article in the *Australian Standard*, a partisan newspaper dedicated to the abolition of land monopoly through the application of land value taxation. The name of the author was listed as Twark Main and the article appeared shortly after Mark Twain visited Australia. Accessible at [www.hartford-hwp.com/archives/25/018.html](http://www.hartford-hwp.com/archives/25/018.html).

2 Henry George, *Progress and Poverty: An Inquiry Into the Cause of Industrial Depressions and of Increase in Want with Increase in Wealth*, London: Hogarth Press

Ltd, 1879.

3 Henry George, *Social Problems*, n.p., 1883.

4 Susan George, *How the Other Half Dies: The Real Reasons for World Hunger*, Harmondsworth: Penguin, 1976.

5 Chief Sitting Bull in a speech at the Powder River Council, 1877, accessible at <http://members.aol.com/pantheism0/indians.htm>.

6 Hiwi Tauroa, quoted in 'Need to Prevent Land Wrangles', *New Zealand Herald*, 1 February 1982.

7 Rolland O'Regan, *Te Ara Tika: Ten Undelivered Lectures*, Wellington: Crown Leasehold Association, 1980.

8 Clifford Cobb, 'Displacing Bad Taxes With Good Ones', *The Indicator*, 5 March 1997, p2.

9 *Ibid.* For further information on land tax, see [www.askhenry.com](http://www.askhenry.com) and [www.multiline.com.au/~georgist/lin.htm](http://www.multiline.com.au/~georgist/lin.htm). There are several Georgist (i.e. supporting the ideas of Henry George) organisations in Australasia, including the Resource Rentals for Revenue Association in Auckland, Prosper Australia (formerly Tax Reform Australia), NSW Henry George Foundation, Earth Sharing in Tasmania and the Site Revenue Society of Queensland.

10 Ken Palmerton in an email to the author, 11 March 2000.

11 Bob Keall, 'Inflation, the Cause, the Cure and the Implications', *Resource Rentals for Revenue Association Newsletter*, 8 May 1996.

12 Bob Keall in a letter to the *New Zealand Herald*, 10 May 1996.

13 *The Dominion*, 27 January 2000.

14 Dr Michael Cullen, *Morning Report*, New Zealand's National Radio, 1 April 2000.

## 17 The Case for Currency Diversity

*Q: If you could change one thing about the industry, what would it be?*

*A: The either/or syndrome that runs through every level of the comic book industry. As a kid you think you have to pick wither Marvel or DC. Later, you either like superheroes or you like alternative comics. Color vs. B&W. Self-published vs. having a publisher. Some people think you can only like one thing and never the other, but of course the only thing that matters is good comics.*

– Jeff Smith, creator of the comic book epic *Bone*<sup>1</sup>

As discussed in detail in Chapter 8, a healthy economy needs to be run as a holarchy, with different levels of economies that are independent yet cooperate with one another. To this end, a complex mix of competing currencies is needed in order to ensure stability and sufficiency. Local currencies will encourage local trade, national currencies will encourage national trade and supranational currencies will encourage trade within that supranational zone. This has been seen with the introduction of the euro, where it has been found that traders are more likely to trade within their currency zone than in a zone with a different currency. In Chapter 8 I explained the need for an international currency – namely, to enable international trade – and in Chapter 14 I discussed the proposal for the bancor suggested by economist John Maynard Keynes at the Bretton Woods Conference in 1944. Unfortunately, the bancor was not adopted and instead the US dollar effectively became the international currency instead, giving the US a huge advantage over other nations. There still is no international currency to date.

In this chapter I take a brief look at the euro, focus in depth on the debates for and against a supranational currency for New Zealand, and rebuff some common objections to currency diversity.

### The Euro

Instead of an ideal situation where we have currency diversity, the world is moving towards fewer and fewer currencies. An example of this is the euro, whose participating member countries have abandoned their national currencies in favour of a single supranational one. Before this single currency was adopted by 11 (later 12) members of the European Union (EU) in 1999, there was much debate on its pros and cons. Indeed, citizens of Denmark and the UK voted to opt out of the system, while Sweden and the 10 countries that joined the EU in 2004 will adopt the euro only when they have met the necessary conditions.

So what is a common currency or a single currency? A common currency is essentially the ultimate in economic integration of states, known as currency union, without each having to surrender its political identity as a nation. A single currency circulates in the zone, a single monetary authority operates, maintaining a common pool

of reserves, a single exchange rate policy prevails, and free trade takes place within the region. Just as a common language promotes communication among people, so a common currency would promote trade in the region. A common currency eliminates transaction costs usually incurred when trade transactions or investments need currency conversions. It also eliminates risk from uncertainty about exchange rate movements between trading partners.

Common currencies can exist only when there is a high degree of synchronisation of business cycles for all prospective member countries of a currency union. For example, before the first 11 countries could adopt the euro in 1999, they had to fulfil certain conditions set by the 1991 Maastricht Treaty – a budget deficit below 3 per cent of the nation's GDP, interest rates within 2 per cent of the three lowest rates in the EU, inflation rate within 1.5 per cent of the three EU countries with the lowest rate, and so on.

Despite the advantages of common currencies discussed above, they also suffer several disadvantages. First, in the event of a banking crisis a country would not be able to support its domestic banks. Second, participant countries lose their seigniorage revenue, which goes instead to the country that mints the money. Third, without perfect mobility of labour and capital a currency union will be a failure. Participant countries can no longer control their own exchange rate through interest rate controls, which in turn affects the value of their exports. Fourth, a central bank may not be able to deal with an 'asymmetric shock', where there is an economic challenge such as high inflation or high unemployment in one country but not in others.

A common argument against the euro is that the measures needed to adjust the economy required of one country are quite different from those required by another: one central bank can't be all things to all participating countries. Back in 1999 and continuing through until 2004, Ireland experienced strong economic growth and high inflation rates. In contrast, Germany and France in 2003 and 2004 were experiencing very low or negative growth – their interest rate should have been set at 0.5 per cent or 1 per cent to stimulate growth, but the central bank maintained it at 2.5 per cent. The central euro bank in Europe clearly could not deal with the situation in Ireland at the same time as it was dealing with countries with low inflation rates, or, looking at it from the other side, it could not deal with the situation in Germany and France at the same time as it was dealing with countries with higher growth rates.

### An Anzac Dollar?

During the late 1990s, New Zealand began a debate about the merits of adopting an Anzac currency. In April 2000, neoliberal economists Arthur Grimes, Frank Holmes and Roger Bowden provided fresh impetus when they published a book commissioned by the Australia New Zealand Business Council entitled *An Anzac Dollar – Currency Union and Business Development*,<sup>2</sup> in which they argued that a common currency would reduce

costs for businesses that traded with Australia and would be the next logical step in closer economic relations with Australia. It would lift export performance and everyone would benefit. Their survey showed that 58 per cent of businesses were strongly in favour of a common currency, because it would eliminate uncertainty created by volatile exchange rates. New Zealand, they said, is the smallest industrialised country in the world to run an independent monetary policy.

By September of that year, Prime Minister Helen Clark said that she was not averse to the discussion, adding that the New Zealand economy was 'too small to register on the radar screens of financial markets and investors'.<sup>3</sup> A One News Colmar Brunton poll on 18 September 2000 found that 51 per cent of people were in favour of a common trans-Tasman dollar. At the same time, the ACT Party was going so far as to propose adopting the US dollar instead.

Since the decision to adopt an Anzac dollar would be hard to reverse, it is important to think out the pros and cons first. The advantages of a supranational currency have been mentioned already, but what about the disadvantages mentioned above?

#### Arguments Against the Anzac Dollar

The main argument against adopting an Anzac dollar is the same given by euro sceptics: in other words, that

a distant central bank would make decisions for New Zealand and monetary (and therefore economic) sovereignty would be surrendered. New Zealand would effectively hand over control of its inflation rate and interest rates to foreign bankers. So, for example, if inflated house prices in Sydney caused the new Anzac central bank to increase interest rates, this could make things worse for New Zealand if we were in a recession. The Anzac dollar would lead to greater centralisation, where unelected bankers would override the decisions of member countries.

Even with a small country like New Zealand, one national central bank (in our case the Reserve Bank) cannot be all things to all regions. Different parts of a country require different solutions, but this must be ignored in favour of an arbitrary average. When Auckland house prices rose rapidly in the period 1992–97, the Governor of the Reserve Bank stepped in and raised interest rates, infuriating people in Southland. Such a one-size-fits-all approach is never found in natural systems. Centralisation like this didn't work for Communism in the USSR and it won't work for the euro in Europe. So instead of either a national currency or a supranational one, what is actually needed is both, a state of affairs that requires a new mind-set.

In actual fact, rather than having an Anzac dollar it seems more likely we will have the Australian dollar imposed on us. Throughout the debate on the issue, the former Governor of the Reserve Bank of New Zealand, Dr Don Brash, injected some realism. In a speech to the CEOs of companies in New Zealand, when the results of a survey were

revealed to show that they wanted a common currency with Australia, Dr Brash said that in reality it would be the Australian dollar that would be introduced, as Australia is not about to give up its dollar in favour of an Anzac currency.<sup>4</sup>

### Coexisting New Zealand and Other Currencies

Whatever the decision, it would be foolish to abandon the New Zealand currency just because of the advantages of a common currency. The options debated are always either/or options. What we need is a both/and mind-set so that we can imagine having more than one currency.

Retaining a New Zealand currency would enable New Zealanders to trade with one another without using valuable international currency. It would help us keep our integrity as an economy and the government wouldn't lose the NZ\$150 million a year it makes from seigniorage. If we had an Anzac dollar as well, all the advantages discussed above would still hold true. And if we also had a wide variety of complementary currencies at a subnational level, together with measures to prevent the overissuing of the total supply of money, the whole system would be more stable and satisfy the economic needs of more people.

### Other Supranational Currency Options

#### Should New Zealand Adopt the US Dollar?

As mentioned above, the ACT Party has proposed that New Zealand adopts the US dollar. There are a number of reasons why this would be a bad move.

First let's look at the workings of the US Federal Reserve Bank.

The US Federal Reserve Bank is 20 per cent owned by the US government and 80 per cent owned by the country's regional federal reserve banks, which in turn are privately owned by their member banks. The only physical money ever put up for the Federal Reserve Bank was the government's original 20 per cent stake. The bank then promptly created loans to finance the private banks' shares of 80 per cent. A bank can loan money into existence, and the Fed did so for its own shareholders.

So if New Zealand adopted the US dollar, we would be giving away our sovereignty to the US Federal Reserve Bank, which is 80 per cent privately owned. Our money supply could then be contracted and expanded according to decisions made by private international bankers on the other side of the world. The boom-and-bust business cycle, the inevitable result of an interest-bearing debt financial system, could then be used to benefit the financier. Clearly, the power to determine the size of the money supply is an awesome one indeed.

The case of Argentina provides a salutary warning for those in favour of New

Zealand adopting the greenback. As discussed in earlier chapters, Argentina pegged its peso to the US dollar back in 1991, and it wasn't long before its exports were priced off the world market, forcing the state and the private sector to borrow more and more US currency from international financial institutions. Unemployment soared, pensions were cut, and spending on health, education and welfare was slashed as Argentina struggled to service its US\$132 billion debt. When in 2001 President Fernando de la Rúa decreed that citizens could withdraw no more than US\$250 from the banks, Argentinians poured onto the streets in open revolt, and economic and political chaos ensued.

#### A Single Asean Currency

In 2004, at a conference of the Association of South East Asian Nations (ASEAN), it came as no surprise that the topic of financial integration of the region was discussed, along with free trade. At the conference, Mr Ong Keng Yong, Secretary-General of ASEAN, presented a paper entitled 'Towards ASEAN Financial Integration' and prepared the ground for a single currency.<sup>5</sup>

#### A Single Pacific Islands Currency

The idea of a single currency for the Pacific islands was proposed by Australia at the annual Pacific Island Forum Leader's meeting in Auckland, August 2003, following a Senate report earlier that year. This conference was attended by prime ministers and presidents of 14 Pacific island countries, and by the prime ministers of Australia and New Zealand. The proposal was inspired by the euro and by the deteriorating economic conditions of some Pacific Island countries.

The cost of such a currency for Australia would be minimal, since its central bank would be free to pursue its own monetary policy, and there would be an increase in trade as dollarisation of the region would lead to elimination of transaction costs and volatility in exchange rates. These benefits have to be weighed against the likely costs that would be incurred by New Zealand and the other Pacific island countries. Fiji was one nation that spoke against the proposal at the forum.<sup>6</sup>

As with the Anzac dollar, a single Pacific islands currency would make good sense provided each participating country is allowed to keep its own national currency as well. And the same arguments apply in its favour. The currency situation in the Pacific islands today is as follows:

**Countries issuing their own currency** Fiji (dollars and cents), Papua New Guinea (kina and toa), Solomon Islands (dollars and cents), Vanuatu (vatu), Samoa (tala and sene), Tonga (pa'anga and seniti).



**Countries using the Australian dollar** Kiribati, Tuvalu, Nauru.

**Countries/territories using the US dollar** Marshall Islands, Federated States of Micronesia, American Samoa, Palau, Guam.

**Countries using the New Zealand dollar** Cook Islands, Niue, Tokelau.

**Countries/territories using the French Pacific franc** French Polynesia, New Caledonia, Wallis and Futuna.

#### Coexisting Currencies – Answering the Objections

As discussed so far in this chapter, supranational currencies are desirable to facilitate trade between nations. The disadvantages to adopting such a currency can be overcome if other currencies – national and local – are allowed to coexist alongside it and complement it. There are objections to such currency diversity, specifically claims that inflation and loss of control will result. These objections are dealt with below.

#### Inflation

One major argument against multiple currencies is that two reserve banks – as would exist in New Zealand if there was a national currency (controlled by the Reserve Bank of New Zealand) coexisting with a supranational currency such as the Anzac dollar (controlled by an Anzac reserve bank) – wouldn't together be able to control inflation so easily. This is not true, but the process, much as in a living system, would require constant negotiation and adjustment according to feedback. The Anzac reserve bank would thus find itself in constant negotiation with the Reserve Bank of New Zealand.

In any case, the situation with regards inflation would be no worse than it is now with the national currency. Inflation over the past 50 years has been such that NZ\$1 in 1950 was worth a mere 4¢ in 2000. Even the last decade, when inflation has been kept more under control, the value of the New Zealand dollar has been steadily eroded. While it is true that too much money brings inflation, and that it is important to keep the money supply just sufficient in quantity to buy the goods and services available in the economy, it is equally important to issue the right sort of money.

#### Loss of Central Control

Decentralisation is actually a good thing – just look at natural living systems around

you, which have no one centre of decision-making. In a system with multiple coexisting currencies, no single agency would have complete control, which would bring with it checks and balances. The purpose of currency diversity is not just to provide stability and complexity, but also to share out the god-like power of money creation. If, for instance, a government allowed local currencies to be created by local governments, then to keep prices constant the country's central bank would have to be in constant negotiation with those who control or regulate the issuing of currency at the local level.

Looking to history again, there is no evidence in any case that central control works. After the Wall Street Crash of 1929, for example, the US Federal Reserve Bank actually shrank the money supply during the Depression years of 1929–33 to one-third of its former size when it should have expanded it. This caused a tragic drop in prices and terrible hardship. In this case the central bank did not deliver stable prices and it certainly did not serve the needs of the people.

Turning to more recent events, we now have a situation where, in December 2004, four years after the adoption of the euro, where, 'five regions are established and more than 50 groups are in various stages of enquiry/discussion/groundwork'.<sup>7</sup> Why would Germans be so keen to establish regional currencies if it were not felt that there is a need to complement the euro with regions? Can we not foresee the need of people in the future to complement the Australian dollar or the ASEAN single currency with more local currencies?

To summarise, if a variety of currencies existed at all levels of organisation – international, supranational, national and local – the challenge facing those given the task of monitoring the system at any level of complexity would be to have them all coexisting without inflation. Moreover, banks would need to accept more than one currency for a deposit without automatic conversion to the national currency, and would need to adopt modern technology so that customers could use multiple-currency smart cards.

The Anzac dollar, Pacific islands currency, New Zealand dollar and local currencies all have benefits. So instead of choosing between them why not have a mixture of the best of all in what must surely be a win-win solution? In this way economies at every level will thrive and stability and sufficiency will result.

## Notes

1 Quoted at <http://filmforce.ign.com/articles/379/379985p1.html>.

2 Arthur Grimes, Frank Holmes and Roger Bowden, *An Anzac Dollar? Currency Union and Business Development*, Melbourne: Institute of Policy Studies, Victoria University, 2000.

3 Helen Clark in an interview on ABC local radio, Australia, 13 September 2000, accessible at [www.abc.net.au/am/stories/s175486.htm](http://www.abc.net.au/am/stories/s175486.htm).

4 'NZ Executives Want Common Currency with Australia: Survey', [www.abc.net.au/news/newsitems/s1073632.htm](http://www.abc.net.au/news/newsitems/s1073632.htm).

5 Ong Keng Yong, 'Towards ASEAN Financial Integration', speech at the Economix 2004 Conference, Jakarta, Indonesia, 18 February 2004, accessible at [www.aseansec.org/16013.htm](http://www.aseansec.org/16013.htm).

6 T. K. Jayaraman, 'A Single Regional Currency: A Viable Solution?', speech at the Reserve Bank of Fiji Economic Symposium, 15–16 July 2004, accessible at [www.reservebank.gov.fj/speech/09.pdf](http://www.reservebank.gov.fj/speech/09.pdf).

7 Email from Helen Dew to the author after speaking with currency activist Declan Kennedy in Germany, 9 December 2004.

18

## Community Banking

*Are you having a nice recovery?*

*Is your champagne chill just right?*

*Or are you scratching to find something*

*To feed your kids tonight*

*Politicians fix up everything*

*Except what matters most*

*We need a whole lot less recovery and a lot more cheese on toast*

– Don Franks song<sup>1</sup>

There are three types of financial organisations in New Zealand: registered banks, so-called 'non-banks' and finance companies. This chapter focuses mainly on non-banks, also called savings institutions, as they are mostly community owned. In contrast, banks and finance companies tend to be privately owned, although two in New Zealand (TSB Bank and Kiwibank) are not.

As we saw in Chapter 1 and discuss briefly again below, the big banks that dominate the marketplace today create unhealthy money in the form of interest-bearing loans. Additionally, in the case of New Zealand the banks are predominantly foreign-owned, which means that every year we send money overseas as interest payments. With their insatiable demand for profit, these banks close small branches and continually raise their charges, harming local communities, small borrowers and those in most need of support.

Although it has problems of its own, community banking provides a healthier option. With these establishments money is retained in local areas, small businesses and small borrowers are supported, loans are made interest-free or at low rates, and

community projects can be funded.

### Banks: High Profits, Poor Service

Most people aren't aware that commercial banks create money unhealthily out of thin air, but there are plenty of other reasons why customers are dissatisfied with their operations and services. Although competition among New Zealand's five main registered banks was eating into interest rate margins, together they still managed to earn NZ\$1.6 billion in the 1999 financial year, achieved through cutting costs and jobs and imposing higher fees.<sup>2</sup> By 2001, their underlying profits had jumped to NZ\$2.6 billion.<sup>3</sup> Part of the reason for these huge profits is that the banks have an extraordinarily low level of 'bad and doubtful debt expense'.<sup>4</sup> They are not lending to small businesses, and they are not taking any risks – 47 per cent of their loans, for example, are in mortgages, the safest form of lending.<sup>5</sup>

During the late 20th century, bank closures in New Zealand left people in small towns dependent on EFTPOS, ATM machines and telephone banking, or having to travel greater distances. Hardest hit by such closures are the elderly, who commonly can't cope with telephone banking, preferring to hang up rather than deal with touch-tone options; instead, they tend to like dealing with a real person over the counter. The high bank fees imposed by banks cause particular difficulties for young working couples and the thousands of struggling small businesses in New Zealand. People on benefit respond to these rising fees simply by keeping their money in cash. As *The Press* editorialised in 1998, 'The parsimony of the major banks and the lack of consideration for their customers may come back to haunt them. Locally controlled community banks once got customer priorities right.'<sup>6</sup>

This dissatisfaction with banks is not just a New Zealand phenomenon. In Australia, for example, the government received a report on an enquiry into banking services in rural areas in May 1998, as outback communities revolted against the banks as they closed

branches and hiked up charges. Further afield, London's *Financial Times* reported in [date?] that, 'The government had called on banks to disclose which services they are offering to the low-paid and unemployed in a bid to shame them into doing more to end financial exclusion.' The article went on to say that MPs had been irritated by evidence that banks reject applications to join from people who cannot produce passports or utilities bills, the standard forms of identification required to prevent bogus accounts being set up by money launderers.

Back in New Zealand, the public's negative attitude towards banks is compounded by the fact that they are almost completely owned overseas. In 2004, [how many?] banks were registered with the Reserve Bank of New Zealand, although the country was served predominantly by just six: Westpac, ANZ, Bank of New Zealand (BNZ), ASB Bank, National Bank and TSB Bank. The first five of these are now wholly Australian-owned, so that only the small TSB Bank is fully New Zealand-owned.<sup>7</sup>

In OctoberA 1999 Massey University report, by Banking Studies Director David Tripe, said, 'Profits were becoming excessive and banks now had an annualised average return on equity of 24%.<sup>8</sup>

Mark Colgate conducted two studies of bank customer satisfaction in 1998 and 1999 for Auckland University Business School's marketing department.<sup>9</sup> His second study found that the banks that were making the biggest profits and those that were the most efficient were generally held in lowest regard by their customers. During 1999, when the study was carried out, the overall level of customer satisfaction with all major banks except the Bank of New Zealand fell. Colgate's survey also showed that one in five retail customers and a slightly higher proportion of business customers had considered changing banks in the preceding year. The main reasons given for wanting to switch were high fees and the

feeling that the banks were not treating people as valued customers. And the banks that these customers were considering transferring to were not all major banks – 26 per cent, for example, considered moving to Taranaki’s TSB Bank.<sup>10</sup>

During the 1990s, New Zealand’s Consumers’ Institute also twice conducted surveys of bank customer satisfaction. After a large survey of its members in 1997, the organisation said, ‘We found one bank that stands ahead of the rest and can justifiably be called the best bank in New Zealand. It’s the TSB Bank.’<sup>11</sup> Westpac Trust, which at the time had 1.3 million customers, was rated worst equal for its fees – it charged 50¢ for each banking call after the first six calls a month, and NZ\$5 to set up a direct debit and then NZ\$4 to change it. David Russell, Chief Executive of the Consumers’ Institute, told *The Dominion* that bank fees could cost families NZ\$300–400 a year, a sum least affordable to those on low incomes.<sup>12</sup>

Aware of the technological changes and merger mania, and concerned about job losses and lack of customer satisfaction, the bank workers

In June 2000, the *New Zealand Herald* ran a series of articles inviting complaints against banks, urging readers to write in with their stories of poor service. By July of that year, the then Consumer Affairs Minister Phillida Bunkle had set up the freephone Bankline service to take customer complaints and queries. During its first day of operation the line received 500 calls.<sup>13</sup>

In a similar attempt to improve customer satisfaction, and concerned about job losses in the light of technological changes and merger mania, the bank workers’ union Finsec recommended that a commission of inquiry be held into the provision of banking services.

But despite all this poor press, New Zealand’s banks have done little to improve things for their customers, who are still dissatisfied with local branch closures, crippling

charges and a lack of support. As mentioned above, in 1997 the Consumers' Institute found that the best bank was the TSB Bank, the country's only wholly New Zealand-owned bank. It thus appears that community banking is the way forward for supporting local communities. There are, however, a number of problems that all banks must deal with, which I shall discuss below.

### Problems Faced by Banks

All banks face four basic problems that do not share the same solution; moreover, the differing needs of the four problems can actually conflict. These problems are discussed below, along with the various solutions.<sup>13a</sup>

#### Access to Banking Facilities

People need ready access to transactions, and if there is no bank close by they will go to the nearest town with a local branch and do their shopping there while they are at it. A lack of rural branches therefore contributes directly to the decline of small towns.

Although the introduction of new technology has contributed to branch closures, the main causes are the high costs of staff, buildings and infrastructure that are required to keep them open. Banks thus have two options: first, they can put up fees nationally for ATM, EFTPOS and general transactions to cover costs; or second, they can rationalise by reducing staff and closing the branches. Neither of these options is palatable to the public.

Claire Matthews, senior lecturer in banking at Massey University and author of *Fallen Branches*, published by the bank staff union Finsec, says bank closures should be questioned.<sup>14</sup> The number of bank branches fell from 1500 in 1993 to 900 in 1999 and was still falling in 2000, as banks merged and switched services to non-branch banking delivery systems like ATMs and EFTPOS.<sup>15</sup> When statistics for non-bank institutions such as building societies are included with those for banks, it is found that New Zealand has one of the highest ratios of such delivery systems per person in the world: 164 EFTPOS



terminals per 100,000 people, compared to 118 terminals per 100,000 people in Canada, the next biggest user of EFTPOS machines.<sup>16</sup>

### Increased Fees

The second way banks make up for the costs of implementing and running automatic services is to encourage people to use them. They do this by structuring their fees to discourage over-the-counter transactions. It is these hefty fees that are making the banks highly unpopular.

Banks also clearly focus their service attention on large account holders and bigger businesses, as pointed out in a 1999 editorial in *The Dominion*:

*With small individual accounts, the banks seem more interested in profitable lending than in servicing people's general banking needs. This is a far cry from the old trustee banks identifying with their communities and winning loyalty from them, and from the Post Office Savings Bank, which was established in 1867 to fill the needs the private banks did not want to know about. At its peak, the POSB had 2,769,190 accounts operating – and paid interest, instead of charging for the pleasure of looking after your money.<sup>17</sup>*

And banks don't only charge for tardy payments. In 2000, to everyone's astonishment, Westpac Trust announced that it would be charging NZ\$2 for credit card bills *paid on time* at a branch. While payments made by telephone banking, post or ATM transfer were to be free, Westpac Trust would charge NZ\$20 for late payments.<sup>18</sup> The year before, in August 1999, Westpac Trust had introduced a charge of 85¢ on its customers if they used a rival bank's ATM machine. At the time, Westpac Trust had about 500 ATMs, ANZ had 348, ASB Bank had 271, National Bank had 262 and BNZ had 206. According to banking experts, such an increase would hit rural customers particularly hard.<sup>19</sup>

## Loans for Small and Medium Businesses

After the worldwide stock market crash of 1987, banks in New Zealand became more wary about lending money to small businesses and instead concentrated on more secure home loans. Around the same time, they also responded to the introduction of new international rules on bank capital, which had the same effect. After 1987 it became quite common for a bank to ask a small business customer to pledge his or her own house as security for a business loan. In addition, the costs of setting up small business loans are relatively high and so they are not as lucrative for banks as loans to big corporates. The reluctance to lend to small businesses is thus partly a result of the need to employ skilled staff and partly a result of the comparatively higher risk of losses.

Small businesses don't just need finance; they need mentoring. The support that used to be provided in New Zealand by the Development Finance Corporation (DFC), the Small Business Agency (SBA) and skilled bank managers in small towns is no longer available. The SBA and the DFC were merged to form DFC Financial Services, an agency that gave advice, consultancy training and mentoring, and delivered government financial programmes like venture capital and suspensory loans. The agency didn't just offer money – it offered a combined package of services to support new businesses. As one of its former staff said, 'Small businesses are difficult to look after, they need daily hands on from a bank.'<sup>20</sup> When DFC Financial Services went commercial, business development boards were established, but it wasn't long before the National government pulled the plug on them.

Aside from government agencies that provide support for small businesses, there are two other solutions to this problem, both of which have been put into practice elsewhere in the world. The first solution is for the banks themselves to have an active relationship with small businesses, either employing mentors (as in the cases of Spain's Mondragon Bank) or becoming shareholders in the business to share risk (as in the case of Islamic banks). Second, microcredit schemes like the Grameen Bank of Bangladesh can be set up

to lend to groups rather than individuals, with the group members guaranteeing the loan. Both solutions maximise the chance of the business succeeding by designing a structure that increases the number of people with a stake in its success, and increase the exposure to business mentoring. I will look at the specific examples mentioned in more detail later on in the chapter.

### Unsecured Small Loans

There are many would-be borrowers who have virtually no security but who are looking for very small loans. This type of loan is called microcredit. Although the sums involved are small, banks are unwilling to lend to these borrowers because of their lack of security.

Solutions to this problem are similar to those discussed in the previous section: risks can be reduced for lenders by increasing support given to borrowers; and the money can be loaned to groups rather than individuals. In New Zealand, there are a number of microcredit schemes that lend unsecured small sums to borrowers. In Bangladesh, meanwhile, the Grameen Bank was established in 1983 to help the poorest of the poor – rural women with no form of collateral. Again, these organisations will be discussed in more detail later in the chapter.

### The Advantages of Community Banks

Community-owned banks are in the best position to deal with the problems discussed above, because they have the power to serve the local community by keeping fees low and branches open, they are willing to lend to small borrowers at low or interest-free rates, and they tend to provide more support for the businesses they serve. With publicly owned institutions such as these, profit is never maximised at the expense of other factors like employment, fees and personal service.

Locally owned banks and financial institutions keep money, and hence jobs, in the local

community. The profits are redistributed locally by the owners, whether the institution is a trust that gives away money to community groups or, in the case of a co-operatively owned institution like New Zealand's PSIS, to the members themselves. Since all major trading banks in New Zealand are now owned overseas, most dividends leave the country. The exceptions are the TSB Bank and Kiwibank; in the case of the former, the community trust that owns it creates jobs within Taranaki and also distributes money to community services and facilities within the area.

### Community Banking Around the World

There are numerous successful community banks in operation in various countries, some of which I focus on here.

#### Mondragon Co-operative Bank, Spain

For those seeking new approaches to local economic development and job creation, the Mondragon in its original form offered one of the most exciting models of this century. (I understand that with the march of globalisation, Mondragon has now changed to embrace many of the less desirable traits of conventional business.)

Begun in 1956, the Mondragon Co-operative Corporation in Spain is owned by 30,000 employees, and has its own bank, university, 109 factories and a food retail chain. The total assets of the bank as at 2000 were put at more than US\$13 billion and annual sales exceeded US\$6 billion.<sup>21</sup> Mondragon has a built-in facility to provide strong support for small businesses, including 'godfathers' or business mentors, and it puts everything possible in place to ensure that the businesses it lends to don't fail. On the occasion of the bank's 50th anniversary in 1995, the United Nations chose it as one of the 50 best social economic projects in the world.

## Islamic Banks

Banks run along strict Islamic principles neither pay nor receive interest. Only one kind of loan is allowed, called *qard-el-hassan*, which is interest-free. The main objective of shariah, or Islamic law, is to establish social justice so that all individuals receive what is their right and can fulfil their obligations to God and society. To this end, the Koran prohibits the payment and receipt of *riba*, or interest, because it concentrates wealth in the hands of the few, who are paid without any effort being made on their part.

Islamic finance is based on the belief that the provider of capital and the user of capital should share the risk of business ventures equally, whether these are industries, farms, service companies or simple trade deals. Translated into banking terms, this means that the depositor, the bank and the borrower should all share the risks and the rewards of financing business ventures. This is quite different to the interest-based commercial banking system we are used to in New Zealand, where all the pressure is on the borrower – he or she must pay back the loan, with the agreed interest, regardless of the success or failure of the venture.

Thus an Islamic bank becomes a partner in the business and shares the profits or losses with the entrepreneur. In the case of a house loan, the bank buys, say, 80 per cent of the house and enters into a contract with the borrower that is similar to a lease to buy.

In September 2003, Australia's Monash University advertised an international conference on Islamic banking in Italy, and in its publicity stated that 'with estimated global assets of US\$500 billion, contemporary Islamic banking has moved from a theoretical concept to become a major financial force to be reckoned with'.

## The Grameen Bank, Bangladesh

Probably the most famous example of a bank that lends money as unsecured small loans is the Grameen Bank, which provides services in 37,000 villages in Bangladesh – half the total number of villages in the country.<sup>22</sup> Founded in 1983 by Professor Mohammad Yunus

for poor rural women with no collateral, the bank has been a remarkable success story. Yunus made clear the principles of the bank in a speech in London in 1996, in which he said he would tell a potential borrower:

*I don't want to see your business plan. Go out and get three of your friends, convince them you will succeed, get them to guarantee you. Then come back to me and I will lend the money to your group. If you pay your loan back then and only then will I consider lending money to your friends for their businesses.*<sup>23</sup>

The bank thus essentially lends to a group, not an individual, which results in a high success rate – more than 98 per cent of the loans are paid back. And this despite the fact that interest rates are necessarily high to cover the cost of a large staff going from village to village. If the Grameen Bank can stimulate regional development by successfully lending to rural Bangladeshi women who have no collateral– probably among the least creditworthy people in the world – then we can surely do it in New Zealand too.<sup>22</sup>

#### Bendigo Bank, Australia

As mentioned earlier, in Australia in 1998 outback communities revolted against the mainstream banks after they increased charges and closed large numbers of branches – one-sixth disappeared from the high streets of Australia between 1994 and 1998.<sup>24</sup>

According to *The Independent* of London, in the railway town of Henty, New South Wales, pensioners complained that they had to pay A\$2 simply to cash their weekly pension cheques across the counter. At the same time, the Commonwealth Bank announced further fee increases and was the last of five banks to pull out of Henty's main drag. Locals saw the Commonwealth's closure as a portent of disaster.<sup>25</sup>

Inspired by Professor Mohammad Yunus of the Grameen Bank, and faced with the challenge of filling the vacuum left by the departing banks, the country's Bendigo Bank

decided to create an entirely new partnership model where communities would have a financial stake in their branch's success. They did this by setting up the branches as publicly owned local franchises, where the communities raised A\$250,000 to establish the business and Bendigo Bank provided the infrastructure and services needed to support it.

To give many small shareholders a stake in the success of the local bank, it was decided that no one person could buy more than A\$1500 worth of shares. In the twin towns of Minyip and Rupanyup, for example, there were at one time 600 people who were either shareholders in the bank or directly related to shareholders.<sup>26</sup> Profits from the branch would be split half and half between Bendigo Bank and the community.<sup>27</sup>

The bank launched its first franchise in June 1998, and publicity followed on the country's Channel 9 in May and July, and on the national television shows *Good Morning Australia* and *The Money Show*. One year later, Bendigo had reached its A\$15 million target and had launched 13 branches, the first three of which were making a profit. *Business Sunday* on Channel 9 described the concept as 'the most interesting idea in Australian banking for years'.<sup>28</sup> By August 1999, the bank had had enquiries from more than 500 communities across Australia and was urging people to be patient.

It is the job of the local community to bring in the customers and set up the branch. Bendigo Bank's May 2001 shareholder report said of this, 'Most communities take around 12 months to raise awareness, attract pledges of financial support, survey their local banking needs, for a new publicly-owned company and raise start-up capital, employ staff and finally open the doors of their new bank branch.' The central Bendigo Bank, located in Victoria, approves the loans, provides expertise, infrastructure, computer systems and balance sheets, and does the corporate marketing. All in all, the model appears to be a very successful recipe for keeping money within local communities.

By March 2002, Bendigo Bank had announced a net profit rise of 25 per cent, and had 136 branches, 59 Community Bank branches and A\$7.5 billion in assets. With this increase in profit it had started a Regional Development Fund and issued green loans for

sustainable energy use. Half of the branches in the Bendigo network had been operating for less than two years and the bank lending approvals had surged by 76 per cent. Russell Jenkins, Bendigo Bank's Senior Manager (Remote Banking), said in 2001, 'Having secured their local bank, these communities are now seeing flow-on benefits beginning to emerge. Local shopkeepers' takings are up and confidence has returned.'<sup>29</sup> Unfortunately, however, New Zealand's different regulatory system would have to change before a similar model could be applied in this country.

### Community Banking in New Zealand

Given the disillusionment among New Zealanders with bank closures, loss of personal banking, high fees and the flow of profits to offshore owners, there has been a surge in interest in locally owned financial institutions. Before I go on to look at some of these, I will focus briefly on the more recent history of banking in New Zealand.

Back in 1986, when the government deregulated banking, the majority of trustee savings banks around the country merged to form the Trust Bank Group, which became Trust Bank New Zealand in 1988. TSB Bank, ASB and Westland Bank decided to stick to their original purpose of serving their small customers, and so opted out of the merger.

In 1989, the Commonwealth Bank of Australia bought a 75 per cent stake in ASB Bank, then in 1994 ASB Bank took over Westland Bank in order to save it from going under. This meant that in 1996, when the Australian-owned Westpac bought out Trust Bank New Zealand, TSB Bank was the only 100 per cent New Zealand-owned bank. In 2000 ASB Bank lost its remaining 25 per cent New Zealand share when the Commonwealth Bank took over total ownership.

The effect of this loss of local control over banking has been yet more branch closures, rising EFTPOS and ATM fees, and growing dissatisfaction among customers, especially in rural communities.



## Attempts to Start New Banks

In 1998, Green Wellington City Councillor Celia Wade-Brown came up with the suggestion of a regional bank.<sup>30</sup> Paul Goulter, then secretary of Finsec, said that her idea was ‘an accurate reading of community dissatisfaction as bank branches continue to close without warning or consultation, bank fees rise and poorly trained and resourced bank staff are put under increasing pressure.’<sup>31</sup>

In contrast, Andrew Dinsdale, Chairman of KPMG’s banking group, told the *Evening Post* that a Wellington regional bank ‘had as much chance of success as of me getting to the moon ... The Wellington Savings Bank had produced poor returns for the community and the trust which owned the TSB now could gain more money by selling the bank and investing the proceeds.’<sup>32</sup> Chris Moore from Massey University’s Banking Management Centre said on radio that it was not a totally absurd concept but extremely difficult in this environment.<sup>33</sup>

During the April 1998 Taranaki by-election the year before, Rod Donald, co-leader of the Green Party, went public stating that he hoped TSB Bank would be the key to a network of community banks set up around the country. After the sale of Trust Bank New Zealand, TSB Bank had lost no time in extending its services to customers who lived outside Taranaki as long as they had a minimum deposit of NZ\$5000. All the dividends would still be distributed to Taranaki community groups. The TSB Bank, not wanting to be aligned with any political party, turned Donald down.

In October 1998, Donald and I organised a meeting on community banking in

Wellington's Beehive Theatrette. It took place on the day of the arrival in the capital of the Hikoi of Hope, the march organised by the Anglican Church to highlight the plight of the poor.

During the lead-up to the meeting I interviewed a number of people, and as I did so my hopes of a new regional bank faded. Legislation had changed since the trustee savings banks were first established, and the big five trading banks were more entrenched than ever. Computer technology had brought in high-cost EFTPOS, ATM and telephone banking services, as well as direct debit.

So instead of looking to establish a new regional bank, we began to focus on supporting locally owned banks and non-banks that already existed – the TSB Bank, the PSIS (formerly the Public Service Investment Society), the Southland Building Society, the credit unions and the microcredit funds. To reflect this, we changed the meeting's title from 'A Meeting for a Bank of Wellington' to 'A Meeting on Community and Co-operative Banking'.

Ian Reid, former CEO of PSIS, told the meeting that NZ\$15 million wouldn't be enough to set up a bank. He said you would need a deposit base of about NZ\$100 million, which you could get with 20,000 customers each depositing NZ\$5000, or 10,000 customers each depositing NZ\$10,000. He continued:

*You would also need skilled staff, and technology. It is a stupendous task to make things happen and begin a new business which is nationally successful in the face of present competition. Even to start a financial organisation on a local basis would be slow and tortuous and take many years to become recognised, let alone accumulate reasonable amounts of retained earnings to go with the risk capital.*<sup>33a</sup>

During the local body election campaign that year, the Green Party in Wellington launched a petition to the local council asking it to support the establishment of a Bank of Wellington. However, signatures were very much harder to obtain for this petition than they had been for that opposing the sale of Trust Bank in Christchurch in 1996. As a result, the Green Party suggestion died a natural death and no bank materialised. It was all just too difficult.

Many other efforts to establish regional banks in New Zealand were made during the 1990s. Bruce Dyer in Nelson set up a Nelson Regional Community Bank Committee, and campaigned to raise NZ\$15 million to start a bank. Some noises were also reported in Hawke's Bay, and in Selwyn District, a small local authority in North Canterbury, efforts were made to start a bank linked with an American firm that ran a community bank. The New Zealand branch of the Commonwealth Association for Local Action and Economic Development, Commact Aotearoa, organised a successful seminar on community banking in Wellington in 1999 and brought an executive from Bendigo Bank to describe their model. And, of course, there has been one major success story of a New Zealand-owned bank in recent years: Kiwibank.

### Kiwibank

During the 1999 election campaign, the Alliance Party promised to establish a People's Bank using as its base New Zealand Post, one of the few state-owned enterprises that had resisted privatisation.

Jim Anderton, leader of the Alliance, told voters that 10,000 jobs had been lost in the banking sector between 1995 and 2000 through the loss of virtually all our banks to overseas ownership.<sup>34</sup> In 1998, ANZ-Postbank, ASB Bank, National Bank and Westpac

Trust paid out NZ\$902 million in dividends to their shareholders but made a profit of about a billion dollars.<sup>35</sup> 'In other words', said Anderton, 'The overseas owners took more than 90% of their profit out of the country.'<sup>36</sup> In 1999, the same banks made NZ\$1.6 billion in after-tax profits.<sup>36a</sup> A People's Bank, Anderton said, would provide competition and drive down fees.<sup>37</sup>

When in December 1999 Anderton became Deputy Prime Minister and Minister of Economic Development, he worked hard for the eventual establishment of Kiwibank against considerable political and bureaucratic opposition.

In June 2000, the proposal gained Cabinet approval. Shares would be raised from individual shareholders and not by government, and government would not guarantee the bank.

Although investigation into the proposal went through many stages, only a few were made public. Reports came in from Treasury and the Reserve Bank, saying it was too risky. Cabinet approval was finally granted in early 2001, with government promising NZ\$78 million to set the bank up.

Many possibilities were studied for partnership, including with the TSB Bank, but, according to Jim Anderton at a speech to the Wellington People's Centre in 2001, 'they refused an excellent offer'.<sup>38</sup> Another joint venture was eventually rejected, and finally it was decided that New Zealand Post must go it alone as a state-owned enterprise. New Zealand Post had always been interested in banking services. It has 340 branches and thousands of outlets, making it the largest network in the country, with more than a million people passing through its doors every week. The big advantage of using New

Zealand Post was that there was no need for capital expenditure for new buildings.

Answering a question from the floor at the Wellington People's Centre meeting, Anderton said that New Zealand Post would probably borrow from overseas banks for mortgages on the open markets.

Anderton accurately predicted that overseas-owned banks would respond to the establishment of the Kiwibank by ceasing branch closures and reducing their fees. 'They are frightened not of what the Bank is now, but of what it will become,' he said.<sup>39</sup> Research shows that 174,000 people switch banks each year in New Zealand and that 40 per cent of people say they will consider switching to the Kiwibank.<sup>40</sup> This research also shows that the main reason people support the bank is that it is New Zealand-owned. As Anderton told the media, the Kiwibank will take customers from the big overseas-owned banks, not from local credit unions or the PSIS.

The government announced in September 2001 that former Prime Minister Jim Bolger would chair the People's Bank board. By November 2001 the bank had announced its name and approved its green logo, registered with the Reserve Bank and decided on its board members. The first branches of Kiwibank opened in early 2002 in Palmerston North and Hawke's Bay.

By April 2002 there were 110 branches open and by June 2003 there were 285, the majority of which were open on Saturdays too. Kiwibank's website claims that 'on average fees are 50% lower than the main banks' and many types of bank accounts are offered.<sup>41</sup> There are no fees for students, superannuitants or children, those who have home loans and those whose account doesn't fall below NZ\$4000. There is no service for small businesses.

By July 2003 Kiwibank was signing up 400 new customers a day, and by September of the same year it was processing no- or low-deposit home loans. The bank's 2003 annual report said it was on target to show a profit by 2004/5. By then it had launched a low-interest credit card, had 147,000 customers and had achieved 90 per cent of its customer service target in just 16 months.

Anderton claimed in 2003[?] that Kiwibank was a success: 'It has forced down fees and reversed branch closures at the overseas-owned banks. The effect of those gains alone means that Kiwibank has already paid for itself.'<sup>42</sup> By October of the same year a Consumers' Institute survey had rated it the best bank,<sup>43</sup> and political opposition appeared to be declining.

Aside from this recent success story, New Zealand also has community banks in the form of the TSB Bank, which is a full bank, and several non-banks.

There are four problems and they all do not have the same solution. Moreover the differing needs of the four problems can actually conflict. Kiwibank has solved some of these problems.

, as banks merged and switched services to non-branch banking delivery systems like ATMs and Eftpos. When non-bank institutions like building societies were included with banks, New Zealand had one of the lowest ratios in the world. New Zealand banks have 164 eftpos terminals per 100,000 people, way ahead of the rest of the world. The next biggest user of eftpos machines is Canada, but it comes in at 118 terminals per 100,000 people.

Problem number two — fees going up

The second way banks make up for the costs of automatic services is to structure their fees to discourage over the counter transactions. These hefty fees are making banks highly unpopular. Banks clearly focus their service attention on large account holders and bigger businesses. Said a Dominion editorial:

‘With small individual accounts, the banks seem more interested in profitable lending than in servicing people

And banks don

Westpac Trust announced in August 1999 that it would charge its customers 85 cents if they used a rival bank. The words are written carefully so as not to claim the small businesses have been recipients of loans.

After the 1987 sharemarket crash, banks retreated to more secure home loans and were more wary about lending money to small business. Around the same time they also responded to the introduction of new international rules on bank capital, which had the same effect. After 1987 it became quite common for a bank to ask a small business customer to pledge his or her own house as security for a business loan.

Since costs are higher, small business loans are not as lucrative for banks as loans to the big corporates. The reluctance to lend to small business is partly because of the need to employ skilled staff and partly because of comparatively higher risk of losses.

Small businesses don.

Before we discuss the fourth problem, we will discuss two other solutions for this problem, both outside our country. Two banks have been known to have an active relationship with small businesses - the Mondragon Bank and the Islamic banks. The Mondragon Bank of Spain has

On the occasion of its 50th anniversary in 1995, the United Nations chose Mondragon as one of the fifty best social economic projects in the world. Mondragon has a built-in facility to provide strong support for small businesses; the bank puts everything possible in place to ensure that businesses don

#### New Zealand Microcredit Funds

These are not banks, but funds of money lent out at low interest. *The YWCA Women* The Women

In 2003, after frustration with its a restricted ability to increase deposits and loans, it changed from being a Credit Union to a Finance Company and is to be known as Prometheus Finance Limited after due process.



Other microcredit schemes.

A good microcredit organisation will have totally different organisation and different cost margins and staff from a bank. Administration costs are large, and so some are dependent on grants.

Since 1997 these funds, which include Quaker Investments Ethical Trust, Nelson Enterprise Loan Trust, Green Futures Superannuation Fund, Methodist Employment Generation Fund, Just Dollars Trust, Trade Aid Ethical Investment Trust, Habitat for Humanity, the Pacific Island Business Development Trust, have been organised together into a national association. One possible future scenario is for these funds to work with Work and Income NZ, because the Department is already spending money getting people off unemployment benefit and into work.

Before I look at these, it is worth putting the size of TSB Bank and the non-banks into perspective: in 2001, the Bank of New Zealand had assets of NZ\$35.3 billion; TSB Bank, the country's largest community-owned bank, had assets of NZ\$1.2 billion; and all of the other institutions were smaller again than TSB Bank.<sup>43a</sup>

TSB Bank

Of the New Zealand-owned banks set up before deregulation in 1986, only one survives today – TSB Bank, which started as the New Plymouth Savings Bank in 1850. It continues to serve more than 60 per cent of Taranaki people today, which is extraordinary customer loyalty by any standards. Called the 'jewel in Taranaki's crown', the TSB Bank offers personal banking but only minimum services to businesses. With assets of NZ\$1.2 billion, it continues to grow. Because it is a bank, it has access to wholesale money and can offer fixed-rate mortgages, and it charges almost no fees.

## TSB

Bank profits continue to enrich the local community. In 1998, the trust that owns TSB Bank distributed NZ\$1.67 million to sports clubs, old people's associations, flower clubs, kindergartens, surf lifesaving clubs and youth groups. According to *North and South* magazine, dozens of tiny rural halls granted money would otherwise be left to locals to maintain.<sup>44</sup>

In the bank's 1997 annual report, Managing Director Kevin Rimmington said, 'We have deliberately resisted the current trend in banking to close branches and reduce staff, in order to maintain a "human touch" with our customers.' All 15 branches remain open, including Eltham (population 2000) and Opunake (1600). The people of Eltham have seen Postbank, National Bank, BNZ, ANZ and Westpac shut up shop one by one, but TSB Bank has moved into new and better premises.

Consumers' Institute surveys in 1997 and 1999 found TSB Bank to be the best bank in the country.<sup>45</sup> Rod Donald of the Green Party told Parliament in April 1999 that 'it is crucial we keep this one last bastion of community banking alive in this country. If nothing else, it is keeping the foreign banks honest.'<sup>46</sup>

By March 2000, TSB Bank was advertising itself as the 'no fees bank', proclaiming 'Every year, New Zealanders spend over \$1 million on bank charges. Why spend a cent?'<sup>47</sup>

## PSIS

PSIS, formerly the Public Service Investment Society, is a financial co-operative with NZ\$560 million in assets and NZ\$50 million in reserves. Although PSIS was originally established under the Industrial and Provident Societies Act 1908, the Acts under which it

now operates are the Co-operative Companies Act 1996 and the Companies Act 1993. It registered under the Companies Act 1993 because this was modern and appropriate legislation for the organisation it had developed into.

Founded in 1928, PSIS provides services for individuals but not businesses. Through 30 branches it offers direct debit services, ATM, EFTPOS, credit card facilities and cheque book facilities, and in June 2001 it launched an Internet banking site.<sup>48</sup> If you have a minimum of NZ\$500 in your account, there are no bank fees. PSIS offers both floating-rate and fixed-rate mortgages, lending up to 95 per cent of valuation on properties. Its floating mortgage interest rates are consistently lower than those offered by the registered banks.

PSIS also offers low-interest loans. However, it cannot share profits made on loans with its members because it is a co-operative society – if such an organisation offers interest rates that are clearly lower than the market rate, the Inland Revenue Department will deem related profits to be a dividend and therefore tax them.

In fact, PSIS is everything but a bank in name, although it gets its money on the retail market by borrowing only from members. But how safe is it?

Well, it survived the Depression, but when Robert Muldoon was Prime Minister and attacked the Public Service Association (PSA) in [date?], there was a run on funds that nearly destroyed it. However, it is more secure now, as implied by its 2001 annual report: 'Capital adequacy on a risk adjusted basis using the Reserve Bank formula is 20.1%, more than double the minimum of 8% required for registered banks.'

### Southland Building Society

The Southland Building Society (SBS), which started business in 1869 and is the largest of New Zealand's building societies, had NZ\$1 billion in assets in 2001, up 13.4 per cent or

NZ\$121 million on the previous year.<sup>49</sup> As a mutual building society, not a bank, SBS offers a growing range of services, including ATM and EFTPOS cards, telephone banking and cheque books. It provides finance for housing, consumers, commerce, agriculture and manufacturing, with the predominant lending activity being residential mortgage finance. The society operates seven branches in the South Island and one in Hamilton, and plans to expand further into North Island in the future.

SBS is registered under the Building Societies Act 1965 and is supervised by the Tower Trust to ensure that it operates within the ratios set for it by financial covenants. Building societies are no longer mutuals. That is, they can now lend to non-members. In recent history both the United and Countrywide building societies converted to banks. Every year the SBS reviews its decision to remain a mutual rather than go for full bank status, which would give it access to wholesale money markets. Currently, it has no plans to opt for such a change.

### Manchester Unity

The Manchester Unity is a friendly society, with two arms that advance credit to members: through the nine credit unions that are operated by the individual districts; and through any one of three levels of the friendly society where funds are available for investment. Both friendly societies and credit unions are specifically prohibited from borrowing by the Friendly Societies and Credit Unions Act 1982, except by way of normal overdraft arrangements. This therefore precludes margin lending as an activity. In addition, there are specific requirements for minimum reserve levels, which means that credit unions cannot be debt funded. There are, of course, some reserves that have been established over 150 years of operation, and a portion of these may be invested by way of mortgages to members.

They don't Manchester Unity does not belong to the Association of Credit Unions.<sup>50</sup>

### Credit Unions

Credit unions are financial co-operatives – that is, they are owned by their members, who share the profits. As they are based around a workplace or geographical area, their members have what is called a common bond. Their aims are neatly summed up in the prospectus of the Otago Credit Union: 'The objectives of the Credit Union are essentially the promotion of thrift amongst members by the accumulation of their savings, the use and control of the members' savings for their mutual benefit and the training and education of the members in the wise use of money and in the management of their financial affairs.'

According to the New Zealand Association of Credit Unions, as at March 2002 about 190,000 people belonged to 45 credit unions with around 100 outlets. In Hawke's Bay, 16 per cent of residents bank with the local credit union.

Together, New Zealand's credit unions have assets of more than NZ\$400 million and an annual income in excess of NZ\$46 million. Since 1891 they have been tax exempt, which was confirmed by government in 2000 when stricter controls and higher deposit limits were introduced. As a consequence of these changes, membership increased 15 per cent in the following 18 months.

Credit union members can pay their bills through their credit unions, use ATM and EFTPOS cards and bank via telephone and the Internet, but they can't operate a cheque book. According to the Association of Credit Unions' Business Services Manager Ross Cambie, the cost of clearing cheques through the banking system is a major impediment to

offering chequing services.<sup>51</sup>

A nationwide advertising campaign fronted by former Prime Minister David Lange reflected the Credit Union Association's enthusiasm to lift its profile and compete with the government backed Kiwibank.

All New Zealand Credit Unions are now operate under the Securities Act Trust Deed regime, so an extremely rigorous prudential supervision system that makes it impossible for them to underprovide. However, this system was implemented at some cost – by 2001 almost half the credit unions that were in existence in 1995 had been driven out of the business as they failed to meet the new standards.<sup>52</sup> Nonetheless, the change did not harm the total membership, and several of the unions simply merged and amalgamated.

#### New Zealand Microcredit Funds

These are not banks, but rather funds of money that are lent out at low interest. A good microcredit fund will have a totally different organisation and different cost margins and staff from a bank. Administration costs are large, and so some schemes are dependent on grants. Since 1997 these funds have been organised together into the Ethical Investment Association.<sup>53</sup> One possible future scenario is that they could work with Work and Income New Zealand, because that department is already spending money getting people off unemployment benefit and into work.

The YWCA Women's Loan Fund is a New Zealand leader in the field of microcredit. It was established in Wellington in 1972 as a women's bank to improve women's access to credit. The first interest-free loan was for NZ\$500 to a group of Porirua women to on-lend amongst themselves for nine months. When this group was then reminded by the Reserve Bank that it was not a bank, they called their enterprise the 'Angel Fund'.

The Wellington Women's Loan Fund, or Angel Fund, was founded in April 1991 and has since stimulated the establishment of a further 14 Angel Funds around the country, which also offer business advice and mentoring. In the following decade they made 437 loans and accumulated NZ\$500,000 in funds. The Angel Funds are supported by Zonta, YWCA and the Association of Business and Professional Women, which all exhort their members to become angels. Loans are used for business, education and other purposes. The Women's Loan Fund is nationally organised, internationally connected, and in a position to work for solutions.

#### Prometheus Foundation

The oldest and biggest national microcredit fund in New Zealand is the Steiner-based Prometheus Foundation in Napier, which was founded in 1983. Prometheus is based on the philosophy that money can support life but can also damage it, and has links with the Mercury Provident Fund in the UK and the Triodos Bank in the Netherlands. This ethical financial institution makes available low-interest loans to businesses involved in education, housing, recycling, the environment, sustainable agriculture and health. Investors are encouraged to foster close connections with the business in which their money is invested, and choose where their money goes and the interest rates that will be paid.

In 1993, the Prometheus Foundation established the Prometheus Credit Union, which in July 2000 had nearly NZ\$7 million in entrusted funds. In 2003, after frustration with its a restricted ability to increase deposits and loans, the Prometheus Foundation changed from being a credit union to a finance company and is to be known as Prometheus Finance Limited after due process.

Inspired by Professor Mohammed Yunus of the Grameen Bank and faced with the

challenge of filling the vacuum left by departing banks, Bendigo Bank created an entirely new partnership model. They had failed in their attempts to set up agencies. Despite very strong sentiments expressed against the big banks at public meetings they had organised, the locals would simply not switch banks. So Bendigo invented a model where communities would have a financial stake in the branch

It is the job of the locals to get the customers and set up the local bank. Their May 2001 Shareholder Report says,

### Superbank

In 2003 a new bank entered the already crowded market in New Zealand. Superbank is a joint venture between St Georges Bank New Zealand (an Australian-owned bank) and Foodstuffs supermarket chain. Promising low monthly fees, it has the huge advantage that the chain's four supermarkets – Write Price, New World, Four Square and Pak'N Save – have more than 3 million customers passing through their stores every week. Checkout operators will deal with deposits and withdrawals, and customers will be encouraged to avoid using ATM machines through the imposition of a NZ\$1 charge. Loans and other services will be carried out over the Internet and through a freephone service.

The bank's CEO, James Munro, believes that the market in New Zealand cannot be crowded if the five biggest banks are continuing to make such big profits. He also believes the success of the UK's Tesco and Sainsbury's superbanks has shown the way. Superbank is now positioned to be a big player in New Zealand.<sup>53a</sup>



## The Future of Community Banking

Community banks keep money local by acting as savings and loans institutions. Most of their loans are in the form of on-lending. However, they still have to compete against the commercial banks, which continue to put millions of dollars of unhealthy money into the system every day of every year, widening the poverty gap and causing growing debt.

In New Zealand, community banking has a long way to go before it reaches the ideal. For example, although Kiwibank is owned by New Zealanders, it is part of the wider commercial banking system, getting its interest-bearing loans from the wholesale market – in other words, from banks that create money overseas. It is not leading the way towards interest-free money or decentralising to give local communities a financial stake in its continuity.

Community banks also need to find new models for financing and mentoring job-rich small and medium businesses, which generally suffer from lack of finance. The Kiwibank does not plan to offer loans to small and medium businesses, TSB Bank doesn't lend to them and nor do PSIS or SBS. As discussed in this chapter, banks run on Islamic principles provide excellent solutions in the form of shareholdings and joint ownership rather than loans, and therefore offer a potential framework for supportive community banking in New Zealand.

A new breed of community-owned banks, such as the one that issued the *bia Kud Chum* currency in Thailand (see page 000), could create interest-free money at a local level. In order to do so in New Zealand, however, changes will need to be made to the law that currently prohibits what the Reserve Bank classifies as non-banks from creating money.

The new breed of community banks will also need a flexible system for deposit accounts. With true currency diversity, community banks should be able to receive

deposits in the community's currency as well as in the national currency. Finally, as long as they are prudent, community-owned financial institutions should be resistant to external financial collapse and offer a mechanism for keeping savings local.

To avoid being blinkered by the benefits of small banks, we need to bear in mind the story of small US state banks during the Depression of the 1930s. The state banks in the US had for some time been an irritant to the federal banks. Prior to the 1929 Wall Street Crash, the market share of the big banks had declined and the state banks were doing well. However, only 29 per cent of big banks were national banks and most of the state banks did not survive the crash.<sup>54</sup> This is not an isolated example either, as there have also been periods in British history when most local country banks failed, and during the collapse of the Indonesian economy in 1997 only the large banks survived.

In conclusion, the challenges of community banking are many and the solutions far from simple, not least because they will undoubtedly lead to new problems. We could do well to remember the warning of economist J. K. Galbraith, who reminds us that, 'A constant in the history of money is that every remedy is reliably a source of new abuse.'<sup>55</sup>

1 Don Franks song details t.c.

2 'Banks Make a Record \$1.6 b in Profits', *Evening Post*, 2 March 2000, reporting on a KPMG survey.

3 KPMG bank survey, 1 May 2001.

4 Source of quote t.c.

5 Source of stats t.c.

6 'Banking Woes', *The Press*, 18 May 1998.

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8 Quoted in 'Banks Profit Excessive – Report', *The Dominion*, 14 October 1999.

9 Mark Colgate papers – details t.c. (and add to Biblio).

10 'Clients Slate their Banks', *Sunday Star Times*, 30 January 2000.

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12 'This Family Saved \$1000 a Year on Their Banking', *Consumer*, 372, July 1998.

13 'Bankline Phones Ringing Hot', media statement by the Honourable Phillida Bunkle, 6 July 2000. A freephone number operated between 9am and 5pm on weekdays, and allowed consumers to compare fees, interest rates for mortgages, bank accounts and credit cards. It also provided a mortgage calculator, tips for managing credit cards and switching banks, savings on mortgages and the best ways to borrow money.

13a I am indebted to Peter Harris for his help with this section, which was given in a phone conversation with the author in 1998, when Harris was an economist for the Combined Trade Unions.

14 Claire Matthews source details t.c.

15 Finsec submission to the Minister for Economic Development, 10 March 2000.

16 'EFTPOS is OK, But it's Branches We Need', *The Dominion*, 27 February 2000.

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19 Source details t.c.

20 Interview with Russell Cockburn, formerly of DFC Financial Services, Wellington, [date?].

21 'Can Coops go Global?', Tim Huet, [www.igc.org/dollars/issues](http://www.igc.org/dollars/issues). See also [www.iisd1.iisd.ca/50comm/commdband](http://www.iisd1.iisd.ca/50comm/commdband) [solbaram.org/articles.cws.html](http://solbaram.org/articles.cws.html).

22 See [www.grameen-info.org](http://www.grameen-info.org) and Mohammad Yunus's autobiography, *Banker to the Poor*, London: Aurum Press, 1998.

23 Mohammad Yunus speech source details t.c.

24 Source of stats t.c.

25 *The Independent*, 30 November 1998.

26 Russell Jenkins, Senior Manager (Remote Banking), Bendigo Bank, speaking on 3 August 1999 at a meeting at the Beehive Theatre, Wellington, organised by MP Rod Donald, Green Party co-leader.

27 See [www.communitybank.com.au](http://www.communitybank.com.au).

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29 *Bendigo Shareholder*, 6(2), May 2001.

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31 'Unhappy Customers Inspire Regional Bank Study, Says Finance Union', Finsec press release, 9 June 1999.

32 'Regional Bank Has No Chance – Expert', *Evening Post*, 6 June 1999.

33 *Morning Report*, National Radio, 9 June 1998.

33a Ian Reid speech documented where?

34 Source of stats t.c.

35 Source of stats t.c.

36 Source of stats t.c.

36a Source of stats t.c.

37 Alliance Party press release, 2 February 1999.

38 Anderton speech documented where?

39 Source of stats t.c.

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41 See [www.kiwibank.co.nz](http://www.kiwibank.co.nz).

42 Anderton quote source t.c.

43 Details of Consumers' Institute Report t.c.

43a Source of bank stats t.c.

44 'The Good Bank. TSB is the Little Bank That Could ...', *North and South*, June 1998.

45 Details of Consumers' Institute surveys t.c.

46 Source of Rod Donald quote t.c.

47 Advertisement, *Evening Post*, 6 March 2000.

48 [www.psis.co.nz](http://www.psis.co.nz).

49 Source of SBS stats t.c.

50 The information in this section was taken from an email to the author from Jonathan Gee of Manchester Unity, 8 June 1999.

51 'People's 'Banks' Expand', *Sunday Star Times*, 13 February 2000.

52 Emails from Connal Townsend, Manager of Member Services, to the author, 20 May 2001 and 28 June 2001.

53 See Appendix 3 for contact details for the Ethical Investment Association.

53a See [www.superbank.co.nz](http://www.superbank.co.nz) for more information.

54 *The Money Masters: How International Bankers Gained Control Over America*, video documentary, Bill Still Productions, 1996.

55 J. K. Galbraith, *Money: Whence it Came, Where it Went*, London: André Deutsch, 1975, p14.

## 19 Healthy Money Systems: The Future

*Mourn not the dead that in the cool earth lie,*

*Dust unto dust.*

*But rather mourn the cowed and the meek*

*The apathetic throng*

*That see the world's weakness and the world's wrong*

*And dare not speak.*

– Ralph Chaplin<sup>1</sup>

Our current unhealthy money system is causing spiralling debt, financial instability, a chronic shortage of money and a widening of the gap between rich and poor. It also forces continual economic growth, an impossible goal on a finite planet.

How is this so? Few have ever understood that the national currency of industrialised nations is actually

created when commercial banks issue loans. In New Zealand 98% of the money supply is created this way. By an electronic sleight of hand, after a tacit but unwritten agreement with Government, banks create the loan but not the interest to pay back the loan. This means there is always a shortage of currency and all outstanding loans can never be paid back at the same time. Without sufficient money in the system, someone in the system has to lose and go further into debt to pay the interest due. Moreover, if everyone wanted their money out of the banks at the same time, then banks could simply not honour those debts.

In the past decade, the Reserve Bank of New Zealand and many Ministers of Finance have continued to deny that private banks create money, yet this does not tally with the findings of the New Zealand Royal Commission on Banking and Credit, which concluded in 1956 that banks are 'banks of issue' as well as 'banks of deposit'. Readers can only speculate as to why there is such reluctance in high places to reveal the truth. Maybe it is

because the public would then lose faith in the national currency or because the Reserve Bank would then have to admit it couldn't control inflation? I don't know. But it is disturbing. Banks and Governments, realise that if the existing financial system collapsed, millions would die from starvation and civil conflict before Governments could establish an alternative trading mechanism to get food transportation and civil discipline established again.

There is another disquieting feature of our current money system – the spectre of financial instability. Since 1971, when Nixon delinked the dollar from gold, some 87 countries around the world have experienced currency crises, which in many cases have not been remedied by orthodox economic solutions.<sup>2</sup> This could happen in New Zealand. The Reserve Bank of New Zealand issued its first regular report on financial stability in October 2004.<sup>3</sup>

We have seen the way a network of powerful international agencies like the World Bank and International Monetary



Fund (IMF) protect global corporations in their constant drive to grow the economy. The corporate globalisation we are witnessing is damaging the environment, bidding down wages and forcing nations to expand their trade beyond logical boundaries. The international agencies in their various roles blatantly favour the demands of the rich over environmental and human rights; they value money over life. Since the dawning of this understanding, many activists across the world have become engaged in a struggle against these powerful institutions.

The current one-size-fits-all economic structure brings down borders, disrupts patterns of local agriculture, industry and culture, and undermines the authority of the democratic nation state. Corporations rule, but in particular the banking corporations.

The challenge then is to change money from being a usurious instrument of power damaging life on the planet to being a neutral medium of exchange. Rather than prohibiting the charging of interest we need to impose

carrying costs on the medium of exchange and deprive money of its power to dominate the market.

All this is leading to at least one solution – to establish and use complementary currencies to complement scarce national money, creating a diversity of currencies structured within an ecological model of organisation. Such a model, based on ‘holons’ within ‘holarchies’, is in stark contrast to the centralised hierarchy and borderless global economy we have now.

Zero interest rates or negative interest rates, you say? That would send house prices soaring again. But this new money must never be used for speculation in land, so to prevent this we also have to reinvent land as a resource held in trust, not as an object of speculation. Only then will the organic connections between human beings and the earth will be restored. Land and monetary reform are equally essential for peace and social justice. Leaders in thought like German-Argentinean businessman Silvio Gesell understood this very well almost a century ago. It is not just reforming currency that is needed, it is reforming

economic thinking and taxation systems to fit with nature.

We also need many centres of decision-making so that no one individual or group becomes too powerful or is overburdened with functions.

The fact that the money supply must keep on growing leads in turn to a growth imperative for the GDP. So it is also necessary to change the way we measure the success of our economy, as the GDP or Gross Domestic Product is fundamentally flawed as a yardstick. Although one of its main architects, Simon Kuznets, warned of its limitations sixty years ago, the GDP is still the chief economic measure of wellbeing and politicians still call for 'economic growth'. What needs comprehension now, and what many will be surprised to learn is that the origin of the growth imperative lies in the way money is created as interest-bearing debt.

We can't go on growing the economy forever. It damages our beautiful planet as one of its beings we are called to live in harmony with other creatures. However,

when the institutions of family, community and the nation state disintegrate around us, we are challenged to look beyond the current paradigms for solutions. If it is our money system that is causing the trouble, we must adapt it. If we do not, humankind may be just another species heading for extinction.

If, as many believe, the fragile state of the global environment and the perilous instability of the world economy are getting worse, something new is required. Many environmentalists and green politicians are working desperately hard, yet forests keep shrinking, fisheries collapse and grain harvests continue to decline. The trend towards concentration of power, competition and growing debt leads to privatisation, which in turn leads to short-term investments, resulting in, for instance, poorly maintained electricity grids – as witnessed in recent years in power outages in the US and in Italy, affecting millions of citizens. And in highly indebted poor countries the consequence is more serious – poverty, starvation, misery and death.

It is not easy to start again and address issues with an open mind. Given the common acceptance of the 'obvious' truth that positive interest rates encourage the saving of money and that saving is always desirable, the proposals presented in this book are radical and represent a new paradigm. But money, like blood, was meant to circulate not accumulate.

So why create new currencies before our economy gets into real trouble? As at January 2005 our New Zealand economy was booming. But after the economic collapses suffered in Japan and Argentina and the continually declining US dollar, how can any country assume it is immune? The monetary equivalent of civil defence preparation is called for, as we can't wait until our national currencies collapse before we put the safety nets in place.

Why Not Reform National Currencies?

Many contend that our main focus should be on reforming national currencies. This is a daunting task indeed, as politicians and international financiers will fiercely oppose it. Furthermore, the advance of corporate globalisation over the last two decades has meant the task of reforming conventional currencies is akin to turning round a supertanker. Those demanding that central banks create all the national currency are bound for disappointment. Bureaucrats and economists at every level will advise governments against such a move, and in any case a model giving governments sole responsibility for currency creation is centralised and therefore susceptible to corruption.

It is, however, imperative that the international currency is reformed.

The US dollar has an unfair advantage over other currencies in that it enjoys the unique privilege of being the de facto international currency. This situation is causing a huge imbalance of trade between the US and the

rest of the world, a US deficit of more than US\$500 billion and a declining dollar. As imports pour into US they are paid for in US Treasury bonds and other securities. One day the debtors are going to get touchy and dump them, leading to a collapse of the dollar and major international economic collapse. An international conference (along the lines of that held in Bretton Woods in 1944 – see Chapter 4) should be held as soon as possible to develop a more suitable currency for global trade. The adoption of the self-stabilising commodity-based international currency advocated by Bernard Lietaer (see Chapter 14) is an exciting possibility, and so is the currency linked to carbon emission rights as proposed by Richard Douthwaite (see Chapter 14).

### Why Introduce Complementary Currencies?

While not all the ills of the world are attributable to our dysfunctional financial system, it is obviously a major culprit. Instead of focusing on reforming national currencies alone, we need to add to it and organise new

currencies in a more balanced way so that they reflect the niches and specialisation we see all around us in the natural world. The gradual introduction of complementary currencies will avoid major disruption and collapse of the economy, healing it cell by cell in the same way living organisms heal. Currency reform will happen from the outside not the inside. To reform an institution like the Catholic Church it is easier to start a new one, find the churches empty and then the mainstream church will respond. It is the same with an entrenched institution like the international monetary system. Maybe it will implode on itself, maybe it will reform but meanwhile the only practical course of action is to act outside the system.

If complementary currencies – and we are still dealing with early prototypes – can't cure every major ill caused by the current system, they will certainly go a long way towards healing it. At least they will create new forms of behaviour. After all, we can't blame people for being



competitive when the money system itself encourages competition.

But given the relatively small size of any complementary currency, even the establishment of hundreds of thousands of them would not provide enough money to run a country. That is why we need a wide range of currencies, each designed with a different purpose in mind. For example, we probably wouldn't use local currencies to pay for our petrol, but we might use new corporate scrip like Fly Buys loyalty points, AA Reward points or Westpac Visa Hotpoints to pay our phone bill. Similarly, local currencies will not be useful for paying national taxes, as this is the role of a national currency, but they could be used to pay the builder working on a house extension.

What complementary currency practitioners are discovering is that money derives its value from the agreement of the community that uses it. They learn that money was invented as a way to avoid cumbersome two way barter. Communities like families function with a gift

economy, imposing its sanctions on members who do not reciprocate the gifts they receive from the community.

Mutual credit exchanges formally count the credits and require them to balance; the organisers learn a lot about human nature in the process. A timebanking exchange, set up for encouraging volunteering, is half way between a mutual credit exchange and a family's gift economy, since the credits do not have to balance.

When a money system uses tokens, vouchers or notes, the money is only as good as the faith that users have that others will accept it for payment. A rumour is sufficient for the collapse of a currency's value.

When money represents goods that decay at a natural rate it is sensible that money also decays. This means a penalty for hoarding, a 'demurrage charge', effectively a circulation incentive. Who knows what could be achieved with fast circulating currencies designed in this fashion with negative interest rates? Instead of paying the circulation fee, people could spend the money on

environmentally friendly long-term investments such as solar water systems, small electricity generators, wind power, upgrading sewerage systems and restoring depleted soils to grow organic food. Likewise only our imagination constrains us from the endless possibilities for investment in public infrastructure.

As time goes by, people will inevitably experiment with different combinations of monetary innovations, so that a sizeable regional electronic currency with a demurrage could coexist happily with a time banking system and commercial barter, the three together could bring measurable benefits for a region, especially if the regional currency was accepted for rates. As complementary currencies grow in number and effectiveness, their benefits will become more obvious. Within a couple of decades of their use, some 20–30 per cent of a local economy could be run with interest-free or negative-interest money.

Now is a good time for experimentation. Some experiments are bound to fail, but lessons will be learnt.

New Zealand is ideally placed to be a player in this movement.

### Is Debt-free Money the Answer?

When I started writing this book I believed that debt money was the enemy, but after studying complementary currencies and understanding the difficulty organisers had in keeping their systems going, I have come to believe that interest-free debt money is actually the way forward. The beauty of a debt is that it is clear it must be paid back. All money begins as a debt and is cancelled when that debt is repaid. So there is nothing unhealthy about debt money, just the debt money that must be paid back with interest. Sadly, possibly after the influence of the otherwise brilliant Michael Rowbotham, many monetary reformers at the national level have so far failed to understand that the source of the debt spiral is the interest and not the debt.

The learning experience with complementary currencies in many continents continues, and today's

practitioners know a great deal about how to design a good currency. The theories that are being distilled from their practice are now available to anyone with a will to learn. International conferences, internet based phone calls and international 'webinars' are now becoming increasingly available.

## Gauging Success

### During

the development of a more balanced money system, how can its success be gauged? Quite simply, the progress towards sustainable development will be discernible in statistics. Complementary currencies should not be considered as just an extra tool. To be successful they must be useful in significantly raising prosperity for ordinary people, and powerful enough for investment purposes and to change investment patterns. They should include regional currencies. Their turnover should be in millions rather than thousands of dollars. If a new currency is working successfully it will therefore:

- Create new employment.
- Noticeably reduce the debt owed by individuals, families and businesses.
- Make local businesses active in import replacement – in other words, they will manufacture more of their own goods, or parts of goods, rather than import them.
- Lead to a noticeable trend towards the manufacture of more durable goods and long term investment.
- Be invested in infrastructure – for example, communities would perhaps be able to buy back their local electricity generation utilities.
- Keep jobs local, as firms will be able to afford to pay their workers in new currencies.

## The Central and Commercial Banking Challenge

Both central banks and commercial banks will be affected by any reform. Any move towards a decentralised

money-creation regime will naturally upset central banks.

Shann Turnbull, a Sydney-based businessman and academic, maintains that central banks could be decentralised and their role modified to include supervising the integrity of regionally produced money.<sup>4</sup>

Instead of being neutral or hostile to complementary currencies, central banks could then actively encourage them, allowing competition in currencies – and market forces – to prevail. Constant feedback from communities and regions would allow ongoing negotiation between agencies, leading to adjustments and refinement of the system. This is just as feedback loops work in a healthy body. Autocratic central planning seldom works in the long term for most things, and eventually we will reach the same conclusion with regard to central banking.

A decentralised money-creation regime would require both central bankers and commercial bankers to live comfortably with complexity. Banks, businesses and individuals – helped by modern technology – will all need

to be able to cope with more than one currency. With a greater number of central banks, the whole structure would become more complex, but such a system would be much more stable than a simple centralised model. Each holon, or whole part, will be able to function independently of others in the system, yet will work with other holons to create a unified whole. Users will also have to adapt. Just as we have learnt to master home computers, email, the Internet and a pocketful of different currencies while travelling, so we will be able to master multi-currency smart cards and card readers that operate on several tracks.

A more complex monetary system, freed from the boom-and-bust cycles and the built-in inflation (remember that interest constitutes that accompany interest-bearing money, will stand a better chance of controlling inflation.

A change to a healthier system will not just affect central banks, but the entire banking system. Monetary reform will complement scarce national money with sufficient local money and eventually change national and



international currencies. Some of the local currencies will come into existence as substantial interest-free loans, issued by community-owned banks. But in order to avoid conversion costs banks will need to accept a variety of currencies in their customers' accounts without converting to the national currency. As the role and influence of Islamic banks expands commercial banks will eventually have to respond to market forces.

### The Taxation Challenge

A common objection to the use of complementary currencies is that it is a form of tax avoidance. This is because most people assume that income tax will always

be the main form of taxation when in fact it is relatively recent tax forced on governments by commercial banks. So alongside the implementation of complementary currencies, governments need to reform their taxation systems. Specifically, they must move to be less dependent on taxing work and more reliant on taxing the use of limited resources such as land. Inland revenue departments could start to become more flexible by accepting at least some taxes in the form of alternative currencies, such as trade dollars.

## The Political Challenge

Throughout history, politicians such as Julius Caesar, Benjamin Franklin, Abraham Lincoln, Thomas Jefferson

and James Garfield have struggled against banks with minimal success. This history of the continuous and bitter struggle between banks and governments for the right to issue money now needs to be told to a new generation.

Hostile commercial and political forces have in the past worked together to crush promising projects such as Bia Kud Chum in rural Thailand (see page 000). This currency was set up by local leaders working to regain more self-reliance for their district. They were concerned about declining health of villagers after globalisation arrived, the exodus of their youth to the cities and the fact that more and more money was leaving the district. It is vital that today's politicians insist that similar complementary currencies are encouraged and protected until they provide a genuine balance to scarce national currencies.

It is also important that the dominant either/or mentality of left/right politics we continue to cling to is forsaken. This way of thinking is one-dimensional and

maladaptive, as the terms left wing and right wing simply serve to divide rather than integrate. My mother voted National because she believed in the freedom of the individual, while my father voted Labour because he believed the state had a responsibility for the people. Decades later, I now see that they were both right.

### The Challenge for Economists

The biggest advances in terms of economic reform will come about when economists themselves join the fight for healthy money system. While it is very difficult to unlearn what they have learnt at university, they are well placed to devise a model based on the laws of nature. Many economists already have serious concerns about the instability of the world economy, and worry that conventional theory is not solving the problems of currency collapse or increased indebtedness. The fact that economics might be related to the environmental crisis and that the economy is dependent on the ecosystem might dawn on some of them. As the Antarctic ice breaks

away and the scientific programme is threatened hotel owners near Christchurch airport may first to explain this to economists.

Prominent economists in history were all critics of that period's orthodoxy, taking the great issues of the day and developing theories to deal with them. The same applies today, although the hurdles are now higher as the orthodox theories are more firmly entrenched.

As discussed in Chapter 2, orthodox theories alone dominate university economics courses worldwide, whose students are expected to accept them without debate. This support for the continuation of our unhealthy money system by academia, and the assumption that continual economic growth is possible, does not allow alternatives to be put forward.

Fortunately, some economics students are now starting to demand more. A movement called the Post-autistic Economics Network, which started up in French universities in 2000, has stimulated massive academic

discussion.<sup>5</sup> As a result, universities in France must now include examination of alternative theories including the relationship of the environment to the economy. The movement has since spread to universities in other countries, where it will hopefully stimulate a change in the whole economics discipline.<sup>3</sup>

So far economics hasn't served us well enough as it doesn't fit with the reality of this planet. Economy into ecology won't go.

With our new awareness we don't need to trust our lives to the bankers, economists and politicians who have led us down a destructive path and who plead for more time to continue the journey to species oblivion. If economists are not willing to help us develop sustainable money systems and a greener economy, we must initiate change ourselves. When you take on board the fact that 1.4 billion people on Earth live on less than US\$2 a day, it is consoling to know that we can start in our own back yards.

## Sources of Hope

There are grounds for a great deal of hope:

**The Internet** Learning about complementary currencies on the Internet is easy.

### **The anti-globalisation movement – “altermondialistes”**

This has been gaining momentum over recent years, with trade unionists joining environmentalists and liberal activists in a powerful coalition. What is needed now is for the energy of the anti-globalisation protesters - and others

- to be harnessed towards positive solutions so that they can act as 'altermondialistes'.

In some areas this is already happening. Leaders in France and Brazil have started conducting workshops on what they call 'social money' or complementary currencies, as a leverage to promote the 'social and solidarity economy'<sup>7</sup>

### **Grassroots initiatives**

For every anti-globalisation protester on the streets, there is one working quietly behind the scenes for a new future. Precious seedlings have appeared in the fertile but little-used understorey of the global economic jungle – microcredit schemes, ethical investment funds, community banks and a huge variety of complementary currencies. These seedlings now need to be transplanted to different soil, cross-fertilised, and bred to maximise stability and



beneficial effects.

**Indigenous initiatives** Over the last two decades in New Zealand, many Maori have committed themselves to advancing Maori economic development, but to date this has all been within the conventional paradigm. Instead of continuing to use the money system imposed on them by their colonisers, it may be time for Maori to reclaim their right to create their own means of exchange, perhaps adapting the koha (gift) system, with its obligation of reciprocity. Rather than investing in the international markets, iwi could use some of their Treaty settlement money to back the creation of an electronic complementary currency with a circulation incentive.

This may also be an option for other indigenous peoples around the world who have received reparation payments.

notes that during previous stages of evolution, normally a species will only adapt whenever a situation has deteriorated very badly. Two billion years ago ancient bacteria, threatened with imminent extinction because they had invaded one another, had to learn very quickly to be cooperative. Up till that time they had been competitive, indulging in what she called

My own experience with writing to the Reserve Bank has

taught me that some staff are remarkably reluctant to volunteer the vital information that commercial banks are

One of the challenges these students have given to their lecturers is to look at the assumptions underpinning their discipline. Orthodox economics, isolated from ecology and community, has assumed that continual economic growth is possible, official textbooks echoing that doctrine.

When we work for the 'democratisation' of money creation (democratisation being used in its wider sense as explained earlier), we will be working for a sustainable money system and a sustainable economy. We do not want 'sustainable economic growth' and other oxymorons advocated by those who eagerly adopt the rhetoric, but not the substance, of reform.

But until economists are willing to help us, we must initiate change ourselves. Moved by the fact

## New Zealand Can Show the Way

During the 1970s there was tremendous concern about the threat of nuclear war. Frozen by fear, many people thought the problem of averting nuclear warfare was too hard; some New Zealanders argued that since it was a global problem, they alone could do little about it.

Then people started breaking the problem down into manageable parts. Small, autonomous peace groups, largely without much assistance of the media in New Zealand started persuading schools, churches and city councils to declare various places nuclear weapon-free zones. Gradually, politicians found they could no longer ignore the growing numbers of credible, responsible citizens saying no to the insane preparation for nuclear war. The result was a nuclear weapon free New Zealand enshrined in legislation.

New Zealand's isolation, humility and willingness to learn from all over the world have brought us distinction in many fields. We are generally well educated and very resourceful. We are known for do-it-yourself. We are well advanced technologically and well linked electronically. We have succeeded in international sporting competition at a rate disproportionate to our size.

Although New Zealand has already travelled a long way down the road to corporatisation, deregulation and privatisation, it is relatively small and so can be more flexible and responsive than many other nations. But the structural adjustment we have voluntarily undergone has made us very vulnerable. Our four major banks are overseas owned and money pours out of the country as students pay off their interest and homeowners pay off

their mortgages.

## What Can Individuals Do?

Everyone can do something constructive, no matter how small their contribution. Local government in New Zealand has recently been given more scope for creativity and innovation, so initiatives can more easily emerge.

Young people waking up to globalisation will not be satisfied with anything less than taking back some of the power that rightly belongs to them.

To make your contribution, you could do one of the following:

- Seek out one of the groups listed in Appendix 3, in particular Living Economies, [www.le.org.nz](http://www.le.org.nz).

Set up a local discussion group

- Study the Internet sites listed in Appendix 2.

- Visit Bali or Japan or any other country that uses time based systems alongside its national currency.
- Start up a timebank or a regional currency.
- Bring the topic of money creation out into public debate by talking to your friends and family, or write an article about it for your local newspaper or an Internet site.

Persuade your club, church, iwi or hapu to discuss this issue.

- Work with your district council to help solve one of their intractable problems of financing and maintaining their infrastructure or encouraging local business.
- Make sure your library has books on this topic (see Bibliography).
- If you are a trade unionist working for higher wages, study the theories of Silvio Gesell.
- If you own a business and want lower costs, study the theories of Silvio Gesell.
- Investigate the workings of banks run on Islamic principles.
- Write to the Minister of Health and Accident

Compensation Commission to encourage them to investigate the Japanese Health Care Currency and this could extend to the Accident Compensation Commission.

- Write to your MP, persuading him or her to encourage the government to establish a clearing house for new initiatives on complementary currencies.

### A Healthy Future

The time for monetary literacy has arrived. Consciousness of the medium we use to trade with each other must spread further, because money can no longer be regarded as a neutral force. Scarce currencies pit people against one another, instigating a race to destroy the natural systems on which we depend. Instead, a supplementary range of healthy currencies will bring more wellbeing, foster community spirit, encourage long-term investment and ultimately lead to increased happiness for more people.



Although such a system will not be able to solve the problems of dwindling oil reserves or poor policies, it will certainly be a major step in the right direction.

A paradigm shift is required now. We need to find a totally new vantage point and start afresh. You cannot really solve a problem with the same thinking that caused it.

Consciousness of money needs to be spread so that a critical mass understands what money is and how it can be restored to become our servant, not our master. The freedom to shape the money we use may turn out to be just as important as other basic human freedoms, like the freedoms of speech and belief.

It is now time to nourish our sick world before it deteriorates further. Global warming and freak weather events are telling us to act now. The cancer that has taken over must shrink, while the healthy cells must be nurtured to grow strong. Only then will our world function as a healthy body again, its cells and organs all coordinated and working together in harmony. With our healthy

money we will thus be able to restore our healthy planet.

G

iven the will and the right circumstances this could happen within a generation, leading to a much brighter future for our children.

<sup>1</sup> Ralph Chaplin *Bars and Shadows*.

<sup>2</sup> As reported by Bernard Lietaer to the Money Summit of Oct 2003

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<sup>3</sup> The first New Zealand financial stability report is at [www.rbnz.govt.nz/banking/fsr\\_oct2004.pdf](http://www.rbnz.govt.nz/banking/fsr_oct2004.pdf)

<sup>4</sup> Shann Turnbull

*Reinventing Central Banks* by Shann Turnbull

<http://www.lightparty.com/Economic/Banks.html>

<sup>5</sup> See [www.paecon.net](http://www.paecon.net), the website of the Post-autistic Economics Network, for more information

<sup>6</sup> *Half the world's workers living below US\$2 a day poverty line. ILO says new policies for promoting productivity growth and decent jobs could improve outlook for working poor*

Geneva. ILO news.

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<sup>7</sup> For a description of a September 2004 conference in Brazil, see <http://www.alliance21.org/en/proposals/summaries/money.htm>

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17 Margrit Kennedy, *Interest and Inflation Free Money*, Mumbai and Okemos, Michigan: Seva International, 1995, p24.

18 Paul Glover, 'Grassroots Economics', *In Context*, 41, 1995, accessible at [www.context.org/ICLIB/IC41/Glover.htm](http://www.context.org/ICLIB/IC41/Glover.htm).

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## Appendix 1:

### Classification of Currencies

Complementary currency systems can be classified in several ways:

1. By their **purpose** – for example, community building, employing young people, caring for old people or commercial reasons.
2. By their **medium**, including paper, coins or electronic money.
3. By their **function**, as a medium of exchange, a standard of value or a store of value.
4. By **who is issuing them**.
5. By the **relationship of their value to time**, as in the case of demurrage currencies, or by the **relationship of their value to the national currency**.
6. By **who is backing them**.
7. By the **way they are issued**.

To save repetition, I will use just the last two methods.

#### Classifying Currencies by Who is Backing Them

Since all money has to be trusted, it has to be backed by promises. These promises vary.

1. **Currencies backed by promises of goods, services, energy, work or being good for tax payments.**

### *1.1 Warehouse receipts.*

(The final three of these are theoretical proposals only.)

- 
- Promissory notes from banks (backed by gold); see page 000.
- Wära (backed by coal); see page 000.
- Ostraca tokens issued by warehouses in ancient Egypt (backed by corn); see page 000.
- Energy dollars (backed by kilowatt hours of energy); see page 000.
- Energy-backed currency units, or ebcus (backed by greenhouse gas emission rights); see page 000.
- 
- Terras (backed by a physical inventory of goods); see page 000.

### *1.2 Promises of accepting the currency for goods or services by a community of members.*

- Green dollars, or LETS; see page 000.
- Time dollars; see page 000.
- Ithaca HOURS; see page 000.
- Barter club créditos; see page 000.
- 
- Bia Kud Chum; see page 000.
- Commercial trade barter dollars; see Chapter 11.
- Deli dollars or other tokens (backed by meals); see page 000.

### *1.3 Promises of accepting the currency for goods or services by a trusted small business (these rarely circulate as currency, although they could do so in theory).*

- Deli dollars; see page 000.
- Any firm that finances its advance orders by vouchers, such as the Stoneryridge Winery on Waiheke Island; see page 000.

*1.4 Promises by a government to accept currency for taxes or local rates.*

(The final example was proposed but not adopted in practice.)

- National currencies – notes and coins (national government services).
- Bank cheques (national government services).
- Hamilton rates vouchers (local government services); see page 000.

**2. Currencies backed by promises of redemption to a national fiat currency (which in turn is backed by a government promise to accept it for taxes), or for goods priced in the national currency (bought currencies).**

*2.1 By a large business.*

- Fly Buys loyalty points; see page 000.
- AA Reward points; see page 000.
- Westpac Visa Hotpoints; see page 000.

*2.2 By a smaller community (bought vouchers).*

- Salt Spring Island Gift Certificates; see page 000.
- Toronto dollars; see page 000.

### *2.3 By a commercial company, small business or individual.*

(Although in this case a group is involved in accepting the currency and it is worthless if not used in this way, effectively the issuing company or individual promises to redeem it for national currency.)

- Simecs; see page 000.
- Chatham Islands Notes; see page 000.
- Save Australia Buyers Club (SABC) vouchers; see page 000.

## Classifying Currencies by the Way They are Issued

### 1.

#### *Warehouse receipts.*

When gold is brought to a bank, it issues a receipt or note to say that it promises to redeem that note for gold. In 2003, farmers in Argentina chose to pay for their insurance policies in the form of grain deposited in a silo and were issued with warehouse receipts (see page 000). These receipts are effectively commodity-backed money.

### 2. *Fiat currencies.*

This is money that is created out of nothing by an authority and declared to be currency. New Zealand's national currency is a fiat currency, which is acceptable for the payment of taxes and therefore of other goods and services.

### 3. *Mutual credit schemes.*

These include green dollars and trade dollars. The participants themselves create the credits and debits (see page 000).

### 4. *Borrowing with collateral.*

Bank debt that is issued when the borrower can back it with a form of collateral, such as a house mortgage. Governments are required by banks to back their

credit with the imposition of taxes. Trade barter companies also demand collateral when they grant large loans (see page 000).

*5. Borrowing without collateral.*

An example of this is the *bia Kud Chum* scheme in Thailand, where a community bank lent new money to families (see page 000).

*6. Loyalty currencies.*

These include Fly Buys points issued by supermarkets and other companies, Westpac Visa Hotpoints and AA Reward points (see pages 000–000). Members who have accumulated points with these schemes are then awarded discounts on goods and services at participating outlets.

*7. Vouchers issued by firms.*

These include vouchers printed in newspapers that you cut out and redeem at a supermarket. They are only as good as the promise of the firm that issues them.

*8. Credit money.*

This form of money works on the same basis as that used in the game of Monopoly, where players are given a set sum of money at the start and additionally each time they pass Go. The Argentine *crédito* clubs also used this central distribution system for the first few years of their operation (see page 000).

*9. Bought vouchers.*

These include schemes where a group of retailers promises to redeem a common voucher, as in the Save Australia Buyers Club (see page 000).

*10. Spent into existence by governments.*

These are essentially anticipated tax warrants, or vouchers issued in anticipation that someone will eventually use them to pay taxes (see page 000).

## Summary of Complementary Currencies

Currency	Type	How it is/was issued	Place and date of introduction	Strengths	Weaknesses
Green dollars, or LETS (see page 000)	Mutual credit	Member issues an IOU to the group in the act of buying, and must accept IOUs in return when selling	Canada, 1983; established in New Zealand in 1987	No inflation possible	<ul style="list-style-type: none"> <li>• Too dependent on organisers</li> <li>• Members leave in debt</li> </ul>
Trade dollars (e.g. Bartercard, Tradecard, BBX; see Chapter 11)	Mutual credit	Member businesses issue an IOU to the group of traders in the act of buying	USA, 1970s; introduced to New Zealand in the early 1990s	<ul style="list-style-type: none"> <li>• No inflation possible</li> <li>• Brokering possible because 6 per cent commission is charged to both buyer and seller</li> </ul>	Cannot accommodate specialists
Wörgl work confirmation certificates (see page 000)	Fiat currency with demurrage fee, or circulation	Spent into existence by city council, which accepted the	Austria, 1932	<ul style="list-style-type: none"> <li>• Used for most transactions</li> <li>• Circulated fast,</li> </ul>	Few; in fact, it was so successful that it was ruled illegal

	incentive	certificates for tax. Redeemable with penalty		reducing unemployment • Built-in incentive to persuade others to accept them	
Wära (see page 000)	Warehouse receipts, backed by coal	Spent into existence by a large private employer, who redeemed the receipts for coal	Schwanenkirchen, Germany, 1931	Built-in circulation incentive, encouraging use	Few
Ancient Egyptian ostraca (grain tokens; see page 000)	Warehouse receipt with demurrage	Token given out as receipts for corn, then used for trading	Unknown	Lasted for thousands of years and brought great prosperity	???
Time dollars (see page 000)	Service credits for voluntary work	Issued by an agency, and earned into existence by volunteers	USA, 1980	The unit of currency is an hour, which makes it more robust for tax purposes	Mainly young people earn time dollars, but they can't really spend them until they are old
HeroCard (see page	Service credits	Earned into existence by	Minnesota, USA, 1998	There is a three-way	????



000)		volunteers. Credits are put on a DualCurrency smart card and then spent in participating shops. Credits are redeemed in one transaction		gain: for volunteers, who get cheap goods; for volunteer groups, which gain volunteers; and for shops, which use up excess capacity	
Red Global de Trueque (RGT; see page 000)	Mutual credit barter clubs	Créditos are given out to members on joining. Originally, transactions were recorded in a centralised notebook, then a system of cheques was introduced	Buenos Aires, Argentina, 1995. Still in use in some South American countries and in Spain	<ul style="list-style-type: none"> <li>• Créditos are accepted in all <i>trueque</i> clubs.</li> <li>• Trading markets open long hours</li> </ul>	<ul style="list-style-type: none"> <li>• The huge variety and quantity of notes in circulation makes them prey to counterfeiting</li> <li>• Infighting is common as administration becomes too centralised</li> </ul>
Bia Kud Chum (see page 000)	Interest-free credit	Banks lent the currency into existence as interest-free loans to	Thailand, 2000	????	????

		families			
Gold, tobacco, pigs, shells (see page 000)	Commodity money, used as a form of exchange in itself	Became used as currency by convention	Worldwide throughout history	Slightly better than barter, and trusted because the issuer usually redeems it	<ul style="list-style-type: none"> <li>• Often insufficient supplies for all transactions</li> <li>• Not easily divisible</li> </ul>
Tallysticks (see page 000)	Issued by King Henry I of England	Notched stick divided down the middle, one half kept by the king to match to the owner's half	England, from 1150	<ul style="list-style-type: none"> <li>• No counterfeiting possible</li> <li>• Lasted seven centuries and brought prosperity</li> <li>• Good for paying taxes</li> </ul>	Very awkward for exchanges
Commodity-backed notes (see page 000)	Notes are issued as receipts – for example, gold receipts issued by private banks	Note is a promise to pay gold, or an IOU	Europe, from the 14th century	<ul style="list-style-type: none"> <li>• Many denominations can be issued, so it is convenient</li> <li>• Hard to counterfeit</li> </ul>	Insufficient gold held in reserve, so holders can manipulate money supplies
Toronto dollars (see page 000)	Fully backed currency, redeemable at 90 per cent for Canadian dollars	Bought dollar for dollar. Participating businesses can redeem	St Lawrence neighbourhood of Toronto, Canada, 1998	<ul style="list-style-type: none"> <li>• Acceptable to businesses because of its redeemability</li> <li>• Useful in</li> </ul>	Small system, so slow-growing and dependent on organisers'

		the currency for Canadian dollars at 90 per cent, the remaining 10 per cent being spent on community projects		generating money for community projects	enthusiasm
Salt Spring Island Gift Certificates (see page 000)	Fully backed currency, redeemable for Canadian dollars	Bought dollar for dollar. Businesses can redeem notes for Canadian dollars at 100 per cent	Salt Spring Island, British Columbia, Canada, 2001	<ul style="list-style-type: none"> <li>• Taken home by tourists, with profits staying in the community</li> <li>• Chamber of Commerce and three island banks accept deposits of the currency</li> <li>• Well-designed notes reduce counterfeitin g</li> </ul>	No incentives for spread of scheme
Save Australia Buyers Club (SABC; see page 000)	Voucher system, 90 per cent redeemable for	Vouchers sold to members at 110 per cent – in other	Queensland, Australia, 1999	Incentives built in throughout scheme – for example, to	• Run by a private company, so not a democratic



## Appendix 2: Useful Websites

### General Green Economics Sites

#### **<http://circ2.home.mindspring.com>**

This is the general website of community economist Tom Greco, and contains all of his articles.

#### **[www.globalideasbank.org](http://www.globalideasbank.org)**

Use this site's search engine to access all kinds of innovative ideas on community currencies.

#### **[www.greens.org.nz](http://www.greens.org.nz)**

The website of the Green Party of Aotearoa New Zealand, with submissions, media statements and speeches.

#### **[www.jobsletter.org.nz](http://www.jobsletter.org.nz)**

A regular New Zealand newsletter on jobs, which also has a wealth of material on community development and green economics. Great links, great site design.

#### **[www.jubilee2000uk.org](http://www.jubilee2000uk.org)**

The website of Jubilee Research, the international debt and finance programme of the New Economics Foundation. Contains research reports and news updates on worldwide economics issues.

#### **[www.neweconomics.org](http://www.neweconomics.org)**

The site of the New Economics Foundation, London, an independent think-tank that gathers information on new economics.

### History and Theory of Money

#### **[www.ex.ac.uk/~RDavies/arian/llyfr.html](http://www.ex.ac.uk/~RDavies/arian/llyfr.html)**

Contains a summary of Glyn and Roy Davies' book *The History of Money from Ancient Times to the Present Day*.

#### **[www.ex.ac.uk/~RDavies/arian/money.html](http://www.ex.ac.uk/~RDavies/arian/money.html)**

This site lists numerous microcredit and credit unions, general resources on local and interest-free currencies, and LETS websites by the dozen.

#### **[www.moneymaker.com/money/italy/index.htm](http://www.moneymaker.com/money/italy/index.htm)**

Essays by Professor Giacinto Auriti of Italy, creator of simecs.

Monetary Reform (National)

**[www.comer.org](http://www.comer.org)**

The website of the Canada-based Committee on Monetary and Economic Reform.

**[www.democrats.org.nz](http://www.democrats.org.nz)**

The website of the New Zealand Democratic Party, including a discussion of the social credit ideas originated by Major C. H. Douglas.

**[www.electronz.cjb.net](http://www.electronz.cjb.net)**

A weekly e-zine on New Zealand monetary reform edited by Don Bethune of Hamilton. Visit his archives. The site was started in January 2001.

**<http://homepages.picknowl.com.au/eranet/erahome.htm>**

The website of Economic Reform Australia, a non-party-political organisation for monetary reform.

**[www.prosperityuk.com/prosperity/updates.html](http://www.prosperityuk.com/prosperity/updates.html)**

The website of the Bromsgrove Group, which first met in 1997 and consists of a wide variety of organisations involved in the monetary reform of national currency. A good site with many interesting articles. No flashing java signs, no cookies, no midi music; it just sticks to the point, makes its position clear and updates regularly.

**[www.themoneymasters.com](http://www.themoneymasters.com)**

A site where you can find out more about *The Money Masters: How International Bankers Gained Control of America*, the 1996 video documentary from Bill Still Productions about the history of money creation.

GDP

**[www.rprogress.org](http://www.rprogress.org)**

Redefining Progress is a California-based institute working to highlight the inadequacies of GDP, and proposes the use of the Genuine Progress Indicator instead. The organisation's landmark *Atlantic Monthly* article from 1995 is available at:

**[www.theatlantic.com/politics/ecbig/gdp.htm](http://www.theatlantic.com/politics/ecbig/gdp.htm)**

Organic Model of Organisation

**[www.ratical.org](http://www.ratical.org)**

A website promoting awareness of appropriate sustainable practices. It includes the

writings of evolutionary biologist Elisabet Sahtouris.

#### Complementary Currencies

##### **[www.appropriate-economics.org](http://www.appropriate-economics.org)**

The excellent site of community currency adviser Stephen DeMeulenaere, covering community currencies in the developing countries of Asia, Africa and Latin America, plus material on complementary currencies in Japan. His list of references and links is all you need to start you off on an exciting web journey. Good books that can be downloaded from the site include Silvio Gesell's *The Natural Economic Order*, Irving Fisher's *Stamp Scrip* and Tom Greco's *Money: Understanding and Creating Alternatives to Legal Tender*, among many others. In addition, there are articles and research, education and implementation resources galore. The site is always being updated, and as it is so comprehensive it makes a useful starting point for research into complementary currencies.

##### **[www.communitycurrency.org](http://www.communitycurrency.org)**

The website of American activist Carol Brouillet. It has heaps of information on community currencies, including some classic articles. Click on the community currencies link or else you will get tangled up with a great many other topics dear to Brouillet's heart.

##### **[www.geocities.com/cmhensch/resource/econ-lets.html](http://www.geocities.com/cmhensch/resource/econ-lets.html)**

Website created by currency activist and ex-banker Christoph Hensch of Golden Bay, New Zealand, with numerous useful links.

##### **[www.geog.le.ac.uk/ijccr](http://www.geog.le.ac.uk/ijccr)**

The website of the *International Journal of Complementary Currency Research*. It gives access to an email discussion group on community currencies run by Colin Williams of the Department of Geography, University of Leicester, UK, with an international board. It also has good book reviews.

##### **[www.nexuspub.com/articles/2003/july2003/interview.htm](http://www.nexuspub.com/articles/2003/july2003/interview.htm)**

Interview with Bernard Lietaer, July–August 2003, by Ravi Dykema, entitled 'Complementary Currencies for Social Change'.

**[www.reinventingmoney.com/monetaryRef.php](http://www.reinventingmoney.com/monetaryRef.php)**

A site on new money by community economist Tom Greco. An excerpted e-book version of Greco's *Money: Understanding and Creating Alternatives to Legal Tender* can be downloaded from here, or to order a copy from the publisher go to:

**<http://chelseagreen.com/2004/items/money>**

Greco's *New Money for Healthy Communities* can be accessed online at:

**[www.ratical.org/many\\_worlds/cc/NMfHC](http://www.ratical.org/many_worlds/cc/NMfHC)**

**[www.schumachersociety.org](http://www.schumachersociety.org)**

The website of the E. F. Schumacher Society. Click on the local currencies link for some interesting articles on the history of local currencies in the US and Canada, including SHARE microcredit, deli dollars, Borsodi's constants and others.

**[www.le.org.nz](http://www.le.org.nz)**

Website of New Zealand's Living Economics (previously the Stable Money Trust), which was inspired by Margrit Kennedy and aims to promote and support complementary currency projects in New Zealand.

**[www.strohalm.nl/english](http://www.strohalm.nl/english)**

The website of the Strohalm Institute, based in the Netherlands, which develops projects to tackle the economic causes of environmental and social problems around the world. Includes links to various community currencies all over the world, plus links to sites on the Mondragon co-operative discussions, credit unions, e-money and Islamic banking.

**[www.transaction.net/money/community](http://www.transaction.net/money/community)**

The website of Bernard Lietaer, author of *The Future of Money*. His book can be downloaded from the site and his classic 1997 article on web currencies, 'Internet Currencies for Virtual Communities', is also here. In addition, the site gives definitions of money terms.



Green Dollars/LETS

**[www.appropriate-economics.org](http://www.appropriate-economics.org)**

Lists almost all the LETS schemes around the planet.

**[www.lets.org.au](http://www.lets.org.au)**

Good page of links to LETS schemes in Australia.

**[www.lets-linkup.com/32-New Zealand.htm](http://www.lets-linkup.com/32-New Zealand.htm)**

Lists the LETS schemes in New Zealand, with contact details.

**[www.letslinkuk.net](http://www.letslinkuk.net)**

Information on LETS schemes in the UK, plus a discussion on the theory of LETS and an archive of related articles.

Time Dollars

**[www.fairshares.org.uk](http://www.fairshares.org.uk)**

Fair Shares is the UK pilot of the US time dollars scheme.

**[www.timebanks.co.uk](http://www.timebanks.co.uk)**

The website of Time Banks UK, which aims to support new time banks in the UK. Also includes a toolkit for anyone wanting to set up a time bank.

**[www.timedollar.org](http://www.timedollar.org)**

Covers time dollar schemes in the US, but also contains useful information on how time dollars work.

Fiat Currencies

**[www.ithacahours.com](http://www.ithacahours.com)**

Great website with plenty of information on Ithaca HOURS, plus a starter kit for anyone wanting to begin a local currency programme.

Combination Currencies

**[www.torontodollar.com](http://www.torontodollar.com)**

The Toronto dollars website, detailing how the scheme works.

Trade Barter

**[www.bartercard.co.nz](http://www.bartercard.co.nz)**

The website of Bartercard New Zealand.

**[www.irta.com](http://www.irta.com)**

The website of the International Reciprocal Trade Association.

**[www.itex.com](http://www.itex.com)** and **[www.ubarter.com](http://www.ubarter.com)**

The websites of ITEX, supporting members across North America.

Currencies with a Circulation Incentive or Demurrage Fee

**[www.margritkennedy.de/english](http://www.margritkennedy.de/english)**

Margrit Kennedy's book *Interest and Inflation Free Money* is available at this site.

**[www.monnetta.org](http://www.monnetta.org)**

Set up in 2003, this is the website of a German group comprising complementary currency experts Declan and Margrit Kennedy and others. It supports and promotes regional currencies in Europe and worldwide.

**[www.sunshinecable.com/~eisehan](http://www.sunshinecable.com/~eisehan)**

The website of Hans Eisenkolb, an Austrian living in America who has made a special study of the Wörgl scheme and of Silvio Gesell. One section is in German, another in English. Go to 'Gogo' and read about a local currency with a circulation incentive in British Columbia.

Resource Taxes

**[www.askhenry.com](http://www.askhenry.com)**

This search engine is a good way to access relevant pages on different types of taxation.

**www.earthsharing.org.au**

An Australian site promoting land taxes.

**www.prosper.org.au**

Another Australian site supporting resource taxes. Formerly Tax Reform Australia.

## Microcredit Schemes

**www.grameen-info.org**

The website of the Grameen Bank in Bangladesh.

## Community Banking in New Zealand

**www.nzacu.org.nz**

The website of the New Zealand Association of Credit Unions. It is clear and useful, and contains all you need to find a credit union near you.

**www.sbs.net.nz**

The website of the Southland Building Society. Easy to use

## Ethical Investments

**www.prometheus.co.nz**

The website of the Prometheus Foundation, New Zealand's oldest and biggest national microcredit fund.

**www.socialinvest.org**

The website of the Social Investment Forum in the US, with plenty of information on socially responsible investments.

**www.uksif.org**

The site of the Social Investment Forum in the UK.

## Appendix 3: Useful Organisations in New Zealand and Australia

### Monetary Reform

#### **Economic Reform Australia (ERA)**

A non-party-political organisation for monetary reform. Formerly Tax Reform Australia.

PO Box 505, Modbury, SA 5092, Australia

<http://homepages.pickknowl.com.au/eranet/erahome.htm>

Email: [hermann@pickknowl.com.au](mailto:hermann@pickknowl.com.au)

#### **Living Economics**

Established in 2002 to support complementary currencies in New Zealand, including those based on a circulation incentive. Previously the Stable Money Trust.

Helen Dew, 12 Costley Street, Carterton, Wairarapa, New Zealand

Tel/fax: 06 379 8034

[www.le.org.nz](http://www.le.org.nz)

Email: [office2@stable-money.com](mailto:office2@stable-money.com)

#### **New Zealand Democratic Party**

This political party focuses on monetary reform.

414 Glenfield Road, PO Box 40364, Glenfield, Auckland, New Zealand

Tel: 09 442 2364

[www.democrats.org.nz](http://www.democrats.org.nz)

Email: [democrats@democrats.org.nz](mailto:democrats@democrats.org.nz)

#### **Green Dollars/LETS**

There is no overall contact for LETS schemes in New Zealand. Ask at your local Citizens Advice Bureau or get in touch with LETS Connect NZ, the intertrading organisation.

Tel: 03 686 0756

[www.lets-linkup.com/32-New Zealand.htm](http://www.lets-linkup.com/32-New Zealand.htm) Email: [jpmc@paradise.net.nz](mailto:jpmc@paradise.net.nz)

### Resource Taxes

#### **Land Values Research Group**

An Australian group promoting land taxation.

Brian Kavanagh, Research Director, Box 2688X GPO, Melbourne, VIC 3001, Australia

[www.earthsharing.org.au](http://www.earthsharing.org.au)

Email: [bryank@earthsharing.org.au](mailto:bryank@earthsharing.org.au)

**New Zealand Land Value Rating Association  
and Resource Rentals for Revenue Association**

Two groups that promote land and other resource taxation in New Zealand.

Bob Keall, PO Box 6038, Auckland, New Zealand

Tel: 09 486 1271

Email: [takasec@extra.co.nz](mailto:takasec@extra.co.nz)

**Prosper Australia**

Supports resource taxation in Australia. Formerly Tax Reform Australia.

27 Hardware Lane, Melbourne, VIC 3000, Australia

Tel: 03 9670 2754

[www.prosper.org.au](http://www.prosper.org.au) E-mail: [mhassedoffice@lexiconprosper.org.au.net](mailto:mhassedoffice@lexiconprosper.org.au.net).

Local Indicators

**Sustainable Cities Trust**

Promotes sustainability to create a better quality of life in New Zealand.

PO Box 4490, Christchurch, New Zealand

Tel: 03 377 8566

Fax: 03 377 8153

[www.sustcities.org.nz](http://www.sustcities.org.nz)

Community Banking

New Zealand Association of Credit Unions

Promotes credit unions in New Zealand and can provide the locations of those nearest you.

PO Box 37-590 Parnell, Auckland, New Zealand

Tel: 09 309 9551

Fax: 09 309 9571

**[www.nzacu.org.nz](http://www.nzacu.org.nz)**

Email: [nzacu@nzacu.org.nz](mailto:nzacu@nzacu.org.nz)

**New Zealand Co-operatives Association**

Encourages and promotes New Zealand co-operatives.

Level 5, Agriculture House, 12 Johnston Street, Wellington 6001, New Zealand

Tel: 04 472 4595

Fax: 04 472 4538

[www.nzco-ops.org.nz](http://www.nzco-ops.org.nz)

Email: [nzco-opassn@extra.co.nz](mailto:nzco-opassn@extra.co.nz)

### **Ethical Investments**

#### **Prometheus Foundation New Zealand**

The oldest and largest national microcredit fund in New Zealand.

27 Tennyson Street, Napier, New Zealand, Freepost 142

Tel: 06 835 7138

Fax: 06 835 1628

[www.prometheus.co.nz](http://www.prometheus.co.nz)

Email: [ethical@prometheus.co.nz](mailto:ethical@prometheus.co.nz)

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*Yes!*

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## Glossary

**Barter** The direct exchange of goods or services without using the medium of a currency.

**Benefit abatement** Reduction in unemployment, sickness or domestic purposes benefits when income is received from another source. Work and Income New Zealand (WINZ) applies a formula to calculate this reduction.

**Bretton Woods** A town in New Hampshire, USA, where the Bretton Woods Agreement was finalised in 1945. The system agreed to gave the status of official global reserve currency to the US dollar, while the US guaranteed the convertibility of dollars to gold on demand of other central banks at a fixed rate of US\$35 per ounce. In 1971, President Nixon delinked the dollar from gold, thus effectively annulling the Bretton Woods Agreement. Since then currencies have been floating.

**Circulation incentive** An incentive built into a currency designed to stimulate more rapid circulation. This involves either imposing a financial penalty for hoarding the currency or an incentive for using it. One currency incentive is demurrage (see below).

**Commercial trade barter** The practice by which a barter company sets itself up as a broker for a mutual credit system between commercial businesses and charges a percentage commission fee for each buyer and seller in each deal.

**Community currency** A currency designed and accepted by a community of people, whether the community is defined geographically or by some other criteria.

**Complementary currency** A currency that complements or completes a major currency; the major currency is usually the national currency.

**Currency** Synonymous with money, but emphasising the medium of exchange function of money

**Currency in circulation** The money that is in circulation in an economy. Some of the currency in circulation is in the hands of the public and some is in the possession of the various national banks.

**Demurrage** A fee placed on any money that is 'parked' and remains stationary. Also defined as the extra charge per unit of time required as compensation for a delay (this definition is derived from the concept of delay of a ship, railway wagon, etc., caused by failure to load or unload before the time scheduled for departure). Demurrage acts as a circulation incentive and as a disincentive to

hoarding.

**Economic growth** The time-related growth of the Gross Domestic Product (GDP). It is commonly expressed as a percentage growth of GDP per year or per month.

**Fiat money** Money that is declared to be money through the arbitrary decision of an authority. Also defined as a currency that is created out of nothing and declared to be valuable. Most national currencies are fiat currencies.

**Fractional reserve** The fraction that remains in the bank as a reserve when money is created by a bank. For example, if early goldsmiths received \$100 in gold and created \$60 new money with it, the fractional reserve was 40 per cent. This figure has reduced over time. In contrast, 100 per cent reserve banking means that banks hold 100 per cent of money loaned in reserve.

**Genuine Progress Indicator (GPI)** An alternative measure of economic growth invented by Redefining Progress, a California-based organisation. It is arrived at by subtracting from the GDP all the social and environmental costs of industry.

**Gross Domestic Product (GDP)** The value of all the goods and services produced by a country.

**Gross National Product (GNP)** The value of all goods and services produced and exchanged in a particular country.

**Holarchy** A term invented by Arthur Koestler for describing relationships in an organic system, acknowledging that the word hierarchy is inappropriate. A holarchy is a system in which all the parts are considered equally important, no matter what level of organisation they are at.

**Holon** A 'whole-part' within a holarchy. Each holon is embedded in another holon. While holons each have different degrees of organisation, they are all equally important.

**Inflation** A general rise in prices over time. This means that a certain amount of money will buy fewer goods later on in time. Inflation is measured as the Consumer Price Index and nowadays excludes the price of land.

**Interest** Time-related income for the lender of a currency or a time-related cost of borrowing money.

**Investment** Spending money now with a view to increasing the productive capacity of a company or project.

**Iwi** A place-based Maori tribe with strong affiliations, unique culture and

shared land ownership.

**Koha** The Maori term for a gift, with an expectation that a koha of equal or greater value will be returned in the future.

**LETS** Acronym for Local Exchange/Employment and Trading System, a mutual exchange circle. Also called a green dollar exchange.

**Loyalty scheme** A system in which companies reward customers for loyalty, usually by giving them a numbered card on which they accumulate credits for purchasing from the company. Customer members are then able to spend their credits in a variety of ways with companies that participate in the scheme.

**Microcredit** Small-scale conventional loans at interest to small-scale entrepreneurs.

**Mutual credit** A process of creating money through a simultaneous debit and credit between participants in a transaction.

**Parallel currency** Synonymous with complementary currency. Used to suggest that currencies act in parallel and none is more important than another.

**Reserve bank** The central bank of a country, officially in charge of managing a national currency, controlling inflation and setting the overnight exchange rate between banks and the value of the currency in relation to other currencies. The New Zealand Reserve Bank is publicly owned, but those of many other countries – for example, the Federal Reserve of the US – are privately owned. Reserve banks regulate the amount of currency commercial banks can create and at what cost.

**Scrip** A certificate representing a claim to part of a share or stock. Also a private currency issued in the form of a paper IOU by a corporation or an individual. Frequent flyer miles are a corporate scrip issued by airlines, and in the Depression of the 1930s scrip was issued in the US as an emergency currency.

**Seigniorage** The difference in value between the cost of producing bullion (notes and coins) and the face value of the bullion. Reserve banks print notes and coins and sell them to the banks for face value. When private groups issue notes in exchange for national currency, they reap the seigniorage.

**Time dollar** A mutual credit system whose unit of currency is an hour of service. Created by Edgar Cahn in the US. The Inland Revenue Service in the US has declared time dollars to be tax-free.

**Trueque clubs** Very active barter clubs that existed in Argentina in 1995–2002. They held regular markets and issued notes for their members to use.

**Usury** Once defined as the practice of charging any interest on loans and disallowed by all major religions; later redefined by England's King Henry VIII as the charging of 'excess interest'.