

# Removing compound interest from the equation

## Reciprocity based models

In module 5 you were introduced to Fureai Kippu, a reciprocity-based health care scheme designed to support senior citizens. No cash is exchanged but real services of value are. In short, it functions as a time bank currency but operates on principles different than commercial exchange and profit generation. There are many such examples. Indeed, as Luca Fantacci, an economist and historian at Bocconi University in Milan says, there were many kinds of currencies for over a millennium; different monies were designed for different purposes. We need to revive this currency diversity.

### 7.7 Watch “Silvio Gesell - Free Money & The Natural Economic Order” (4:31)

<p>Silvio Gesell - Free Money &amp; The Natural Economic Order</p> 
<p><b>911truthncDotOrg.</b> “Silvio Gesell - Free Money &amp; The Natural Economic Order,” video, 4:31, posted by the creator to YouTube, March 24, 2009. <a href="https://www.youtube.com/watch?v=W9dttjObGrQ">https://www.youtube.com/watch?v=W9dttjObGrQ</a> <a href="https://www.youtube.com/watch?v=W9dttjObGrQ">https://www.youtube.com/watch?v=W9dttjObGrQ</a></p>

Within the democratic money tradition is a fascinating 20th century currency created in the Great Depression in the town of Worgl, Austria. Unemployment was high; tax revenues to the local government dwindling. However, kick-started by a new currency introduced by the town mayor to avoid layoffs, and designed to lose its value if not used, the local economy rapidly recovered. Because the money declined by a percentage every month its circulation velocity accelerated through the local economy. Though it sounds like an unlikely basis for success, it was so effective, so quickly, that many other struggling towns in Austria rapidly adopted it. The simplicity of creating this new currency and its rapid diffusion unfortunately drew the wrath of central governments. It was outlawed in many countries including the USA. Its success challenged the status quo of a duopoly of money creation by national governments and corporate banks.

### 7.8 Read “Sweden’s JAK Bank—Liberating Finance from the Ball and Chain of Compound Interest.” (17 minutes)

Conaty, Pat and Mike Lewis. “Sweden’s JAK Bank—Liberating Finance from the Ball and Chain of Compound Interest.” *Making Waves* 20, no. 3, 2011, 51-57. <http://www.communityrenewal.ca/sites/all/files/resource/MW200351.pdf> (<http://www.communityrenewal.ca/sites/all/files/resource/MW200351.pdf>)

Originally founded in the 1930s in rural Denmark, the JAK cooperative (Jord Arbejde Capital) provided interest free loans to rural communities. Exported to Sweden, the JAK movement became the co-operatively owned JAK Bank in the 1970s. The principles around which this member-owned banking system has been built are very aligned with what you reviewed in 7.0. There are four: charging interest is inimical to a stable economy; interest accumulation causes unemployment, inflation, and environmental destruction; interest is socially divisive as it moves money from the poor to the rich (the biggest savers); and, interest charging favours projects where the yield is oriented to short term profit generation. In the JAK approach members pay an administrative fee comparable to a low interest simple interest charge of about 2%. Loans are based on the mutual savings of members. Tens of millions in personal, mortgage, community, and enterprise loans have been issued by JAK generating benefits that extend from significant housing cost savings to low cost financing for renewable energy projects.

### 7.9 Watch “WIR Bank Report,” (8:08)

WIR Bank Report (RAI Tv) (Eng. Subs)



**Santsuma.** “WIR Bank Report,” posted by the creator to YouTube, October 11, 2014.

<https://www.youtube.com/watch?v=VyQSNUH345Y> (<https://www.youtube.com/watch?v=VyQSNUH345Y>)

In Switzerland the WIR co-operative bank, like Worgl’s community-based currency, was born out of the difficulties of the Great Depression. The JAK model was also a source of inspiration. After visiting JAK in the 1930s, sixteen Swiss entrepreneurs started this mutual credit system in Zurich as a co-operative money to help them stay in business in hard times. WIR means WE in German. Operating and expanding since 1935, WIR is the longest surviving alternative currency in the world. It functions as a complementary currency to the Swiss Franc. It is not a physical currency, but a mutual exchange system of electronic credits and debits. With over 60,000 members WIR not only stabilizes the co-op member businesses but research indicates it also provides a stabilizing influence on the entire country.

**7.10 Read “The Sardex Factor.”** (18 minutes)

Posnett, Edward. “The Sardex Factor.” Financial Times, September 18, 2015. <https://www.ft.com/content/cf875d9a-5be6-11e5-a28b-50226830d644> (<https://www.ft.com/content/cf875d9a-5be6-11e5-a28b-50226830d644>)

The island of Sardinia, impoverished by decades of failed industrialization policies promulgated by the Italian government, was hit hard by the 2008 financial crisis. Credit from banks became virtually unattainable. Joblessness, already a huge problem, increased. There were needs and productive capacity but no credit. A handful of people with no financial experience created a currency to fill the gap. Inspired by the WIR in Switzerland, 2900 business members are now using the Sardex currency; turnover is increasing year on year and the mutual credit model is being replicated in other Italian regions. Think about the crises we face in this century and the role this kind of mutual credit system might play for facilitating people meeting their basic needs.