Money:
A Time for *Change*

How complementary currencies can turn local economies around.

National Commonwealth Group

01

What is Money?

Remember the joke about the old fish who asks, "How's the water?" To which the young fish responds, "What the heck is water?"

When it comes to money, we are the young fish. Our financial system is so pervasive that we accept it without question as natural and immutable. But it is actually a deliberate construct that can be changed, if we understand it and have the will to change it.

With each passing year, more of the world's wealth is being transferred from the bulk of humanity to an elite few. That is no accident, as the current system was designed by those same beneficiaries to favor themselves.

Those privileged few did so only around 200 years ago, and although money has been with us for millennia, the system they designed is now so omnipresent that it can be difficult to get out of the water and see it for what it is: a system designed to serve a small, wealthy elite.

We do not realize how nearly everything we touch is influenced and dominated by that system, including how politicians view money and how that influences how they allocate it. Most people take it for granted that the system is the way it is and that there is essentially nothing that can be done about it.

Fortunately, they are wrong! We can indeed do something about it. We can educate ourselves as to how the system was designed, and we can choose to supplement it, or even someday replace it, with one that serves the many and not just the few.

The secret to the existing system has to do with the creation of money that we use in everyday life. Bank owners convinced the majority of the world's governments to let them "create" our money. In essence, they got the government to privatize the creation of money.

"Let me issue and control a nation's money and I care not who writes the laws."
— Mayer Amschel Rothschild (1744-1812), founder of the House of Rothschild.

It was this simple "sleight of hand" that put in motion the factors dominating our society today and established the foundations that inevitably lead to scarcity in the midst of abundance, and a mindset that assumes scarcity and the need for austerity are just the way things are and cannot be changed.

"It is well that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning." — Henry Ford

Not only can something be done, but it can be done relatively easily and quickly. Scarcity and poverty can become a thing of the past. And the secret will be out. That is, if the rich can create money – so can everybody else.

"The issuing power should be taken from the banks and restored to the people, to whom it properly belongs."
— Thomas Jefferson

So, let's see how they do it and then how we can too.

Money Creation in Modern Times

97% of money is created by private banks, not the government.

Ask anyone where money comes from and most will say "the Mint" or "the U.S. Treasury" or even more generally, "the government." But if that were true, why does the government tax us and borrow money? If the government created the money, then it would have to do neither.

Most national governments actually do create some money – about 3% of all the money in circulation. The other 97% comes from private commercial banks!

How? All commercial banks, large and small, create money every time they issue a loan. That is, the money a bank hands over to us when they provide us with a loan is actually created by the bank in the process of making the loan. Banks do not lend us money that they already have (i.e., money on deposit), as is the common assumption, but rather create new money with each loan. And also contrary to popular belief, banks have no real limit to the amount of money that they can create, given that they are not lending someone else's money, but creating it out of thin air.

This reality, known to a limited few over the years, has only been made public in recent times. The fact that commercial banks actually create money was confirmed by the Bank of England in this 2014 video,[1] which states that the main way in which money is created "runs contrary to the view sometimes put forward that banks can only lend out depositions that they already have. In fact, loans create deposits, not the other way around."

They describe that process in greater detail in this bulletin[2] and in this 2015 Working Paper.[3] And while these items focus on the Bank of England and U.K. banks, the principles apply worldwide.

"It proved extraordinarily difficult for economists to recognise that bank loans and bank investments do create deposits." — Joseph Schumpeter, Economist, 1954

Part of the problem for society is that money created by banks starts off as debt, and debt and money are often conflated.

"Given the near identity of deposits and bank lending, Money and Credit are often used almost inseparably, even interchangeably." — Bank of England, 2008

In his article *The truth is out: money is just an IOU, and the banks are rolling in it*,[4] David Graeber, a professor at the London School of Economics, states that, "The Bank of England's dose of honesty throws the theoretical basis for austerity out the window." We would agree.

The book *Where Does Money Come From?*[5] published by The New Economics Foundation, further explores the ramifications of this Bank of England disclosure. They pose the question, "Of all the possible alternative ways in which we could create new money and allocate purchasing power, is this really the best?" We would argue no and offer another way.

Money has frequently been created by means other than debt. The fact that the bulk of the modern money supply is created that way doesn't mean we have to accept that as the only means to get money into circulation. And therein lies a clue to bringing about change.

How Do Banks Actually Create Money?

To understand how banks create money, we need to look at something very familiar to every business person – the balance sheet.

When a borrower signs loan documents, he or she actually gives the bank a new asset that the bank adds to its balance sheet. That asset is based on the borrower's commitment to pay back the loan and their individual creditworthiness. That means it is the borrower who is giving the bank the assets it needs to create the loan and not the bank putting up its own assets to make the loan.

Is that signed loan document actually worth something? You bet. Most people have heard of banks selling a mortgage, car loan, etc. That proves that loan documents have real value to the bank, value based on the borrower's creditworthiness, not the bank's assets. Yet the bank can sell that loan document, capitalizing itself with its borrower's own creditworthiness.

So, back to the process. Once the bank adds that loan document onto the asset side of its balance sheet, it then creates the balancing entry on the liability side by creating a deposit on behalf of the borrower in the amount of the principal of the loan. Thus, the bank creates money as a new deposit, out of thin air with just a few strokes of a keyboard. In essence the bank is giving us back the asset we just gave them, only in a different form – cash.

This is just simply double entry accounting, but in the process, the bank legally creates money.

"The process by which banks create money is so simple that the mind is repelled."
— John Kenneth Galbraith, economist

The Consequences of Bank-Created Money

If we are to entertain any kind of alternative complementary monetary system, we need to first understand the impact of the current system and then ask the question that the folks at the New Economics Foundation did – is this really the best?

The fact that banks are the primary source of money in our society does have far reaching consequences. Let's explore those first.

First and foremost, the goal of money creation on the part of the commercial banks is to make a profit. That means that all the actions taken by those banks will be viewed through the lens of profit making and whether any action they might take enhances or detracts from that.

This profit motive is tied to the fact that modern banking is largely a product of capitalism. And the accepted norm in capitalism is that the owners (shareholders) are the stakeholders who are prioritized above all others, whether employees, suppliers, consumers or the community at large.

Thus, we see that the needs of the owners would be placed before all others, favoring a small few over the many. If humanity were to design a system today, it certainly would not choose the needs of a small minority over all others. Yet that is at the heart of the current monetary system.

Ramifications of the Current System

1 Profit in any business is traditionally tied to risk. The greater the risk, the less probable the profit. In the case of lending, risk rises when the economy is down and diminishes when the economy is strong. Therefore, banks are less inclined to lend when the economy is down and more inclined when things are good. Yet more money should be injected into the society when the economy is down, because that is when society needs it the most. Thus, banks lend counter-cyclically to the needs of society.

2 Banks are more inclined to lend money to those who already have it. The very people who need it the most, get the least, resulting in scarcity and increasing the spread between the haves and have nots.

3 When it comes to lending, banks, like casinos, have a condition where the odds favor the house. That works in a number of ways:

- When a loan is made, the borrower usually pledges some form of collateral. Should the borrower default, the bank can seize that collateral. And yet the bank, as explained above, did not put up any of its own assets to make the loan, but in the event of a default, it receives an asset in the form of the collateral, for which it paid nothing. Heads I win, tails you lose.

- Even if the borrower does not default, the bank still wins. Banks collect interest on loans that cost the bank virtually nothing to create. How many manufacturers would love to have a product that costs them nothing to produce and yet have the purchaser pay them interest on that no-cost product? Effectively the bank is being paid by the borrower for the privilege of letting the bank monetize the borrower's own creditworthiness.

- Banks don't create the interest to pay for the loan, only the principal. That means that the borrower has to get the interest from the money in general circulation. And that money originated as a loan to someone else. Thus, the bank winds up being paid back not only the principal it created out of thin air, but also interest that is pulled from society in a musical chairs fashion where someone, somewhere loses out and more of society's wealth is transferred to the banks and thus to their wealthy owners.

- In all of these cases, mathematically the banks take assets off the table that belong to someone else, and the commonwealth of a nation is inexorably transferred from everyone else to the banks and their owners. This is one of the chief drivers behind the ever-increasing spread between the financial elite and the rest of society.

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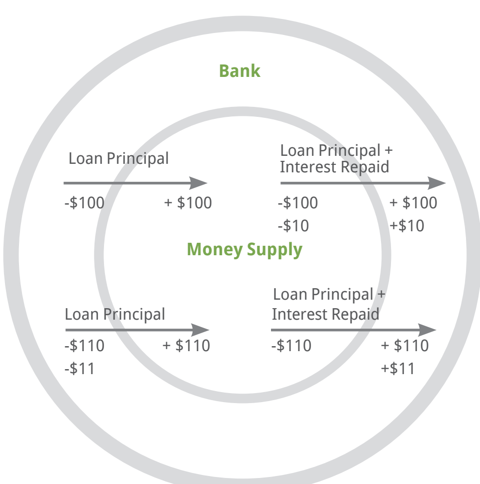
Finally, because governments don't create money (they can and have done so in the past, and many argue they should again) they have to tax and borrow to get the funds they need to carry out the functions of government. The borrowed funds have to be paid back plus interest and thus the government, like all other borrowers, transfers some of the wealth of society to the banks owners. The government pays for borrowed funds via tax revenue, and therefore taxation is the key driver to funding government.

And therein lies a fundamental problem. Almost nobody wants to be taxed and the wealthy (those most capable of paying taxes) succeed in getting laws passed that reduce their tax bill in their favor and against almost everyone else, thereby starving government of its needed resources. Politicians are loath to raise taxes and struggle to make ends meet with what they have. This results in an ever-growing call for austerity, especially to programs that benefit the poor, thereby further hurting those already at the bottom of the financial heap. The common assumption is that there is not enough money to go around and somebody has to come up short. Under the current monetary system that's a reasonable conclusion.

But it does not have to be that way.

The current system, where money is injected into society nearly exclusively by loans from the banks, produces a number of systemic problems that hurt the majority of people and benefit the few. Should society wish to create a new monetary system today, it is likely that the only group that would favor the current system would once again be the financial elite.



Private Banking with Interest[6]

Step 1: A bank creates a loan of $100, increasing the money supply by $100. When the loan is repaid at 10% interest, the money supply is reduced by $100, plus an additional $10 (because the money to pay the interest is never created), which becomes **property of the bank**.

Step 2: After each cycle, the money supply is reduced by an ever-increasing amount, which represents the **growing private ownership** over the money supply.

02

Creating Successful Alternatives

Advocates for changing the rules that currently allow banks to create a nation's money supply would have governments take back that responsibility. Should that happen, most of the problems we defined earlier would be greatly reduced or even eliminated.

However, the financial elite within governments, and with power over governments, makes passage of such legislation all but impossible.

So, what can the rest of us do?

We would argue that even though this appears to be a political problem, the solution can come from business. The banks are businesses that profit from creating money and would not willingly give up that position. So in order to bring about the changes needed, we have to understand how dominant business players in any industry would react if threatened with a dramatic reduction in their profit-making potential. Unseating dominant players is the perennial dream of new entrants into a market. Much has been written about ways to go about doing so, but the leading strategy for succeeding at this is called "disruptive innovation,"[7] a term first introduced by Harvard business professor Clayton Christensen.[8]

His premise is this: One rarely succeeds by directly attacking the powers that control an existing paradigm (they will almost always win). Instead, create a solution that solves a more bite-sized problem, one that is off the radar of entrenched parties and therefore not perceived as a threat. Then grow that solution until it can address the larger problems and ultimately replace entrenched systems, when the new solution is too big and powerful to be stopped.

"You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete." — Buckminster Fuller

Following advice like Christensen's and Fuller's will greatly increase the likelihood of a new solution being able to survive and ultimately flourish.

Applying Those Ideas to a New Monetary System

The first thing that disruptive innovation theory tells us is that trying to directly produce a wholesale change at the national level will likely fail. Instead, we need to find ways to accomplish our goals on a smaller scale, one that can be implemented without invoking an antibody reaction[9] on the part of the banks and would not represent a direct threat to their existing business model. And ideally it would be something that local communities can do on their own without interference from the government.

One key clue is that the banking industry as a whole is not interested in small loans to both individuals and businesses. It takes just about as much effort to approve and issue a small loan as a big one and there is just too little profit in those small loans. Profit is the chief driver of the banks, and anything that reduces profit is rejected and anything that enhances it is prioritized.

Given that fact, the banking industry has been increasingly moving away from small loans, as detailed in this 2012 FDIC study[10] of community banks, creating an opening that we can exploit, without fear that the banks will think we are trying to take their lunch. Essentially, we would be taking the banks own natural inclinations and using that to our advantage. Fortunately, the majority of local economies everywhere are primarily tied to their local small businesses, the ones that want and need those smaller loans and capital infusions.

Small businesses account for the majority of jobs in most countries and, in the United States in particular, it is estimated that businesses with 20 or fewer employees account for over 50 percent of all jobs in the country – more than all government jobs, big business jobs, non-profit jobs and others combined! And companies that are less than five years old account for all the net new jobs, as all other job providers lose more jobs per year than they create.

And while credit is a key tool of businesses, both big and small, capital (investment) also plays a significant role. Big business has no trouble attracting credit from the banks, because the size of their transactions is profitable for the banks. Likewise, it is profitable for the banks to facilitate capital formation (investment) for big businesses. The opposite is true on both fronts for small businesses.

Businesses with 20 or fewer employees account for over 50% of all jobs.

So, from a disruptive innovation standpoint, finding a means to provide money in the form of both credit and capital for small businesses represents a market the banks don't really care about. Serving those markets would represent no threat to the banks, which would largely ignore any activity there just like all businesses ignore activities that do not represent a competitive threat to their core business.

And since credit and capital represent ways to get money to those small businesses, the question is, how can we craft a new money solution that enables us to inject credit and capital into small businesses and get more money to the rest of the community?

What is Money?

Local communities are the backbone of national economies yet most are starved for financial resources. But saying that we need to find an alternate way to inject new money into those local economies begs the question, "What is money"?

"Any item or verifiable record that is generally accepted as payment for goods and services and repayment of debts in a particular country or socio-economic context." — Wikipedia

In essence, something is considered money if people accept it as money. That is at the heart of the alternatives to bank-created money. It turns out that money can be anything that its users want it to be. And there are generally no laws that prohibit citizens around the world from creating their own money, provided it is not deemed the national currency, generally called fiat money or fiat currency.[11]

The key here is that governments authorize banks, and no one else, to create fiat money. This money is declared by a government to be legal tender,[12] which means that the government will accept it in payment of fees and taxes and that all credit providers have to accept it as payment of debt obligations.

Alternative or Complementary Currencies

All other forms of money are called alternative or complementary currencies[13] and they may be created by individuals, organizations and even governments— these are currencies that can exist alongside or in lieu of fiat currencies and can be in paper or in digital form. When in paper form, they are sometimes called scrip.[14]

Most people have heard of Bitcoin.[15] First introduced in 2009. Bitcoin is a type of digital alternative currency referred to as a cryptocurrency,[16] based on blockchain[17] technology. Because Bitcoin can represent a speculative investment, the SEC currently considers it, and other cryptocurrencies, as securities, meaning that the issuance of such is regulated accordingly.

Many people first learned of the idea of alternative currencies with the introduction of Bitcoin and realized that money can be created by private individuals and groups. Because this is likely the first time many have been exposed to alternative money, they often assume that this is the first time a non-government form of money has been used.

By 1300 CE, there were almost 1,000 cathedrals in Western Europe, alongside 350,000 churches and several thousand large abbey foundations. These structures were neither built by nor belonged to the church or nobility but were typically owned by the citizens of the municipalities where they were built and **financed with local currencie**s.

On the contrary, alternative currencies have existed for millennia (even in ancient Egypt) and there are thousands of different versions in existence today, far outnumbering cryptocurrencies. In fact, the periods in history when economies were generally healthier than they are today, when there was a vibrant middle class and when extreme poverty was largely absent, were usually periods in which both fiat currencies and a "people's" currency were available in roughly equal measure. This document, Complementary Currencies in Use[18] provides multiple historical examples.

History shows that alternative currencies tend to grow in popularity when the national economy is in distress and fiat money is tight. A modern case in point can be found in Greece, where local currencies have been popping up all around the country. Going back nearly a century we find numerous examples,[19] specifically from the Great Depression.

This article[20] provides a number of current and historic examples from around the world and points out that while central banks and governments blocked many complementary currencies in the early 20th century (especially during the Great Depression), today many governments are more supportive and recognize the positive role that complementary currencies can play. These examples demonstrate over and over that local projects can be implemented quickly and with dramatic results, demonstrating the viability of the disruptive innovation approach to change rather than attempting change at the national level.

The previous article includes a reference to President Franklin D. Roosevelt who was told by a respected economist that, "The correct application of stamp scrip would solve the Depression crisis in the U.S. in three weeks." FDR then denounced complementary currencies fearing decentralization (thereby protecting the banks) and soon afterwards they were prohibited until more recent times.

And finally, this article[21] explores in greater depth the Austrian town of Wörgl, which during the Depression emerged from over 30% unemployment to near zero in a matter of weeks. That effort was so successful that it became widely known as the Miracle of Wörgl — until the Austrian Central Bank shut it down. To this day, many point to the example of Wörgl and how a local currency can rapidly and dramatically improve a local economy, circumventing the ills foisted on us by the banking industry and our current economic paradigm.

The small town of Wörgl in Austria in 1932-1933 had 500 jobless people and another 1,000 in the immediate vicinity; 200 families were absolutely penniless. The mayor had a long list of projects he wanted to accomplish (re-paving the streets, making the water distribution system available for the entire town, planting trees along the streets and other needed repairs.) Many people were willing and able to do all of those things, but he had only 40,000 Austrian schillings in the bank, a pittance compared to what needed to be done.

Instead of spending the 40,000 schillings on the first of his long list of projects, he put the money on deposit with a local savings bank as a guarantee for issuing Wörgl's own 40,000 schilling's worth of stamp scrip, which he used to pay for his first project. Because a stamp needed to be applied each month (at 1% of face value), everybody who was paid with the stamp scrip made sure he or she was spending it quickly, automatically providing work for others. People even paid their taxes early to avoid the demurrage.[22]

They not only re-paved the streets and rebuilt the water system and completed all of the other projects on the mayor's long list, they even built new houses, a ski jump and a bridge with a plaque proudly proclaiming that, "This bridge was built with our own Free Money".

The majority of this additional employment was not due directly to the mayor's project but was provided by the circulation of the stamp scrip after the first group spent it. In fact, every one of the schillings in stamp scrip created between 12 and 14 times more employment than the normal schillings circulating in parallel. The anti-hoarding device proved extremely effective as a spontaneous work-generating device.

Wörgl's demonstration was so successful that soon afterwards 200 townships in Austria wanted to copy it. At that point the central bank panicked and decided to assert its monopoly rights. Within weeks, Wörgl reverted to 30% unemployment and public works projects ceased.

03

Implementing a Local Currency Program

The single biggest hurdle to launching a local currency is to get a sufficiently large group of individuals and businesses to accept the currency as "real money" and therefore viable for conducting commerce.

Most people have unconscious biases that money can only be the national currency. Yet most have likely made use of an alternative currency without realizing it because it wasn't labeled "money".

For example, the largest alternative currency in the world goes by the name of "airline miles" under frequent-flyer programs,[23] where participants can spend their miles or points on goods and services, just as they might with a fiat currency. Most people don't think of such a program as an alternative currency – but it is. Coupons of various types likewise can be used in whole or part as a replacement for conventional money, but most people would not call them money.

So, choosing a label can help to overcome a bias against a new currency. Alternative currencies like Bitcoin and Ether[24] often refer to their currencies as "tokens." And communities often give their local currency a name like Berkshares[25] in Massachusetts, or names that echo the national currency such as the U.K.'s Brixton Pound[26] or the Toronto Dollar in Canada.

Getting a local government to accept the currency can go a long way to creating acceptance by the rest of the community, as is getting a credible community institution to stand behind the currency.

Once the acceptance hurdle is overcome, communities are only constrained by the ways they might inject the currency into their economy.

The Bristol Pound,[27] the largest local currency currently in circulation in the United Kingdom, is a case in point, where the local city government accepts that currency in payment of fees and taxes. Local governments are starved for resources as well, and more and more of them are accepting or would consider accepting an alternative currency as a valid source of revenue.

To the extent that they do, that helps to legitimize that currency as real money. However, it doesn't stop there. Local governments can get key infrastructure projects paid for that might otherwise go unfunded (see below), providing them with even greater incentive to accept the currency. And the community benefits by getting needed public projects paid for without the necessity of taxation.

In a nutshell, communities need to develop an alternate monetary paradigm that can be built at the local level. It should be able to be done with little friction and largely off the radar screen of the banking industry. It should not require any changes to law or systemic practice. As pointed out above, history has shown that communities that issue their own currency can rapidly change their local economy for the better.

What if the Federal Government Accepted Complementary Currencies?

The grand prize would be if the federal government were to accept alternative currencies for payment of fees and taxes. That would compel all state and local governments to do so as well.

Such a step would be transformative. Surprisingly, the prospects of that happening in the United States are much closer than one might imagine.

That's because of action by the Internal Revenue Service Advisory Council[28] (IRSAC), a long-standing IRS advisory group created by Congress to analyze tax issues and make recommendations to the IRS. In 2018, the IRSAC was asked for suggestions on how to focus guidance to taxpayers that use or invest in virtual currencies (their term for complementary currencies) and the practitioners who serve these taxpayers. The IRSAC was also asked for input on compliance and enforcement relating to collection actions on virtual currencies.

> In their year-end Public Report the IRSAC noted that, "Use of virtual currency as a payment method has grown in popularity and has emerged as an alternative to using fiat currencies (i.e., government-issued currency)." The report went on to say that "Virtual currency poses tax compliance risks [arising] from nonwillful conduct by a taxpayer (e.g., lack of understanding regarding the taxability of virtual currency transactions, how to calculate basis of gain/loss from virtual currency transactions, how to characterize income, third-party reporting responsibilities, etc.). Compliance risks can also arise from willful conduct by a taxpayer (e.g., using virtual currency to evade taxes)."

One of the key questions addressed by the IRSAC concerned the issue of the IRS accepting virtual currencies for payment of taxes. The IRSAC concluded that the IRS is already authorized to do so, and should do so!

A November 2018 Forbes article *Let Taxes Be Paid With Virtual Currencies*,[29] IRS Panel Urges provides a succinct report of the IRSAC recommendation to the IRS that it accept virtual currencies as payment of federal taxes. Note the following in particular:

> **"However, the IRSAC notes several states are considering accepting virtual currencies as payment for taxes and the IRS could do the same. Section 6311(a) provides that the IRS may receive "any commercially acceptable means [of payment of tax] that the Secretary deems appropriate to the extent and under the conditions provided in regulations prescribed by the Secretary."**

Further, in section 8 of the Recommendations on page 78, the IRSAC recommends that IRS:

> **"8. Accept payment of tax liabilities with virtual currency. If the regulations under section 6311 were amended to provide for the payment of tax through virtual currency, the IRS could leverage the information and experience obtained from voluntary payments of virtual currency to strengthen enforced collections."**

The impact of this on the world of complementary currencies at the local level would be incalculable. It would instantly create credibility that such a currency is real money (the big question in many people's minds).

It will also solve a HUGE problem for anyone receiving a payment in a virtual currency that IRS would consider taxable. Currently the IRS considers such payments as though they were made in dollars, but requires the taxpayer to pay the taxes due the IRS in dollars, not the virtual currency. So, if anyone were to pay employees, in whole or part in a complementary currency, the employer and the employee would have to pay any taxes due the IRS in dollars. Obviously very convenient for the IRS but VERY inconvenient for the tax payers. If all parties concerned could pay the tax in the virtual currency, that is a game changer.

4 Ways to Inject a New Currency into a Local Economy

The design of such a system needs to be done in recognition that the issuers of a new currency can use at least four different methods of injecting that money into local economies, and that they may use any or all methods.

Note: There are also other systems often considered alternative currencies, that in reality do not entail a currency at all but rather some other units like time tracked in hours or systems that facilitate barter (goods for goods exchanges). Such systems have a place in such a new monetary paradigm but are not likely as scalable as the below options. Those other systems are not contemplated here.

Let's now look at the actual means by which a currency can be introduced into the community.

First of all, keep in mind that the issuers of an alternative currency can create that currency out of thin air, just like the banks do, only they do not have to follow a prescribed set of rules (like banking regulations) to do so. And in many cases the issuer will be some form of community economic development organization, often a non-profit, with the good of the community as their primary concern and not the wealth enhancement of shareholders. Here's what they can do.

1

Sell the New Currency for Another Currency.

This is usually done in exchange for fiat currency, but it can be for other currencies such as Bitcoin. By far this is the most common method used by the thousands of alternative currency providers around the world. They often tie the issuance of a local currency to a campaign to promote local businesses, called "buy local" campaigns. The problem with this method is that it is usually tied to fiat currencies and therefore doesn't get us fully away from the existing bank-debt created money paradigm. It also tends to limit the amount of new money being injected into a local economy. Nonetheless, it does help to establish a baseline value to the new currency, which then helps with these other methods. If this is all that a community does, it will likely have limited success and may not persist. The following methods greatly increase the probability of the system succeeding and persisting.

2

Lend the New Currency to Businesses and Individuals

In essence the issuer would function much like a fiat currency denominated bank, only in this case they would lend the alternative currency as loans or lines of credit. In most countries, lending an alternative currency could be done without any regulatory oversight. And like conventional banks, these complementary currency banks would have no limit to the amount of loans they could issue. In addition, they would likely have more flexibility to determine how much, if any, interest to charge and how much collateral to require to provide the credit to the borrower. Likewise, they could elect to lend to very early-stage companies (start-ups), something one almost never sees with conventional commercial banks. And a key attribute of such a lending program is that it will inject "new" money into the economy (in contrast to option 1) and usually when society needs it, i.e., when the economy is down.

Granted, such money ultimately gets paid back and therefore is removed from the economy, but those lenders have options such as rolling over the original loan to a new loan and doing so on a perpetual basis, thus keeping the money in the community float, or returning the interest paid on the credit to the community at large rather than to shareholders. However, the next two options will expand the program even more and the money will remain in circulation.

3

Invest the New Currency into Businesses

Around 40% of U.S. family-owned businesses are expected to change hands in the next five years due to boomer retirements.

Here the issuer functions as a venture capital entity, investing money with local small businesses without an obligation on the part of those businesses to pay back that money as they would with a loan. Thus, the money remains forever in circulation. And like money created for loans, the issuer has no cap on the amount of complementary currency it can issue as investments in companies.

Most communities struggle to raise venture capital funds as they can only turn to the wealthy to put up money. Not so with this complementary currency venture capital program. Effectively they have an unlimited capital pool to draw from. Such an investment program could be coupled with any number of entrepreneurship development programs that can include guidance and mentoring to enhance the survivability of the investees. If the issuer is a non-profit community development organization, that issuer would effectively become the mechanism by which the community owns some or all of a group of local small businesses.

This option could provide the needed capital to buy out retiring businesses owners and keep those businesses in the community, as described in this article.[30] One of the benefits of this option is that such money is sticky, i.e., it remains in the community for the benefit of the community and does not have to be paid back as loans do.

4

Spend the Money into Existence

This is the option that many wish governments would do –just issue money directly to pay for government programs like infrastructure projects, social programs, and health and education benefits. In the case of a complementary currency issuer, they can elect to just issue money directly into the community to pay for both physical things (like infrastructure), organizational things (like schools, police, fire and other community benefit entities), and programs for people (like basic income).[31] More than any other option, this direct spending approach injects new money into the local economy, especially to pay for things that otherwise might require tax dollars to fund. Taxes remove money from circulation and thus this approach not only puts money into circulation but reduces the amount of money being removed for a double impact with each unit of the currency so issued. On top of it all, the commonwealth of the community, in the form of parks, bridges, roads, community buildings and the like, is expanded.

Setting Up Your Own System

When it comes to setting up a local currency system, communities are largely free in most countries to design a system that best fits their needs. For example, a developing country that has a limited amount of currency in circulation may predominantly favor the fourth option of directly spending the currency into existence.

Many such countries desperately need infrastructure investments. Likewise, the people need money and thus a universal basic income grant program may be prioritized in order to get money directly into the hands of the people. The benefits of directly providing grants of money to individuals and families can be seen with such programs as GiveDirectly,[33] although these programs are based on fiat currencies and thus are constrained in how much they can give. Issuers of an alternative currency have no such limits. See this document[33] for an in-depth exploration on the use of a complementary currency as the foundation of a basic income program.

My colleagues and I at the non-profit National Commonwealth Group have designed a template for establishing a local community currency program. It starts with a non-profit like ours that establish es a comprehensive program for injecting new money into a local economy. We call the entity that manages our program a Commonwealth Development Organization (CDO). That program defined in this document.[34] The specific entity under a CDO that coordinates the issuance of the new money is called a Public Benefit Financial Institution (PBFI), described in this document.[35]

Our approach can be initiated without delay just about anywhere, and we would be pleased to collaborate in helping to launch a local effort.

Contact

Get in touch via our online form or call 805 757 1085.

Endnotes

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