

# Rethinking Money

Designing a money system sensitive  
to the environment

# What is Money ?

Functional Definition – what money *does*

Money is a:

- *Medium of exchange*
- *Measure of value/unit of account*
- *Store of value*

# These roles may be incompatible

- Amongst money's many functions, that of the lubrication of a fully functioning economy is the most basic
- If some people are storing money then it may not be able to lubricate the economy efficiently
- Speculation can mean that money is sucked out of the local economy to areas of the world where it can attract a higher rate of return as investment capital

# Theory: the money multiplier

„Reserve ratio“ of 10%; money multiplier is the reciprocal of this, i.e. 10

- An initial deposit is made of £100
- The bank lends £90 of this and holds £10
- The borrower uses the £90 to pay for work and it is deposited in the worker's account
- Now customer balances have increased by the original £100 plus the £90 from the new cheque deposits: a total of £190
- The bank can now lend 90% of the £90, a further £81.
- Total deposits are now increased by another £81 to £271
- This process repeats and the total increase in bank deposits is 10 times the amount initially deposited: i.e. £1,000

# Myth no. 1: the fractional reserve

- Bank creation of money is not controlled by some set ratio—only ‘prudence’
- The constraint on bank lending is only a willing supply of borrowers
- When there are no more borrowers the system collapses
- Quantity of money is not related to economic activity

## Myth no. 2: money has „backing“

- Most money is „fiat“
- Banks do not hold gold and neither do governments
- The agreement in 1944 was that the dollar would be backed by gold
- This link was broken unilaterally in 1971

# Myth no. 3: money is neutral

Most economic activity is based on borrowed money

The money that is deposited belonged to somebody with excess money

The person who borrowed it has insufficient money

Interest will transfer money from the working person with less money to the person living from unearned income

# Money and globalisation

- *The finance industry lies at the heart of globalisation. Of the total international transactions of a trillion or so dollars each day, 95 per cent are purely financial. Globalisation is not about trade; it is about money.*
- *the financial system now completely dominates the real economy of goods and services*
  - Mellor et al. *The Politics of Money*, 2002



# The „credit crunch“

- The supply of borrowers ran out
- Many existing loans had been made without good collateral and could not be repaid
- Bank nominal assets were inflated way beyond their actual assets
- All financial institutions were seeking cash and it was sucked out of the real economy leading to Recession

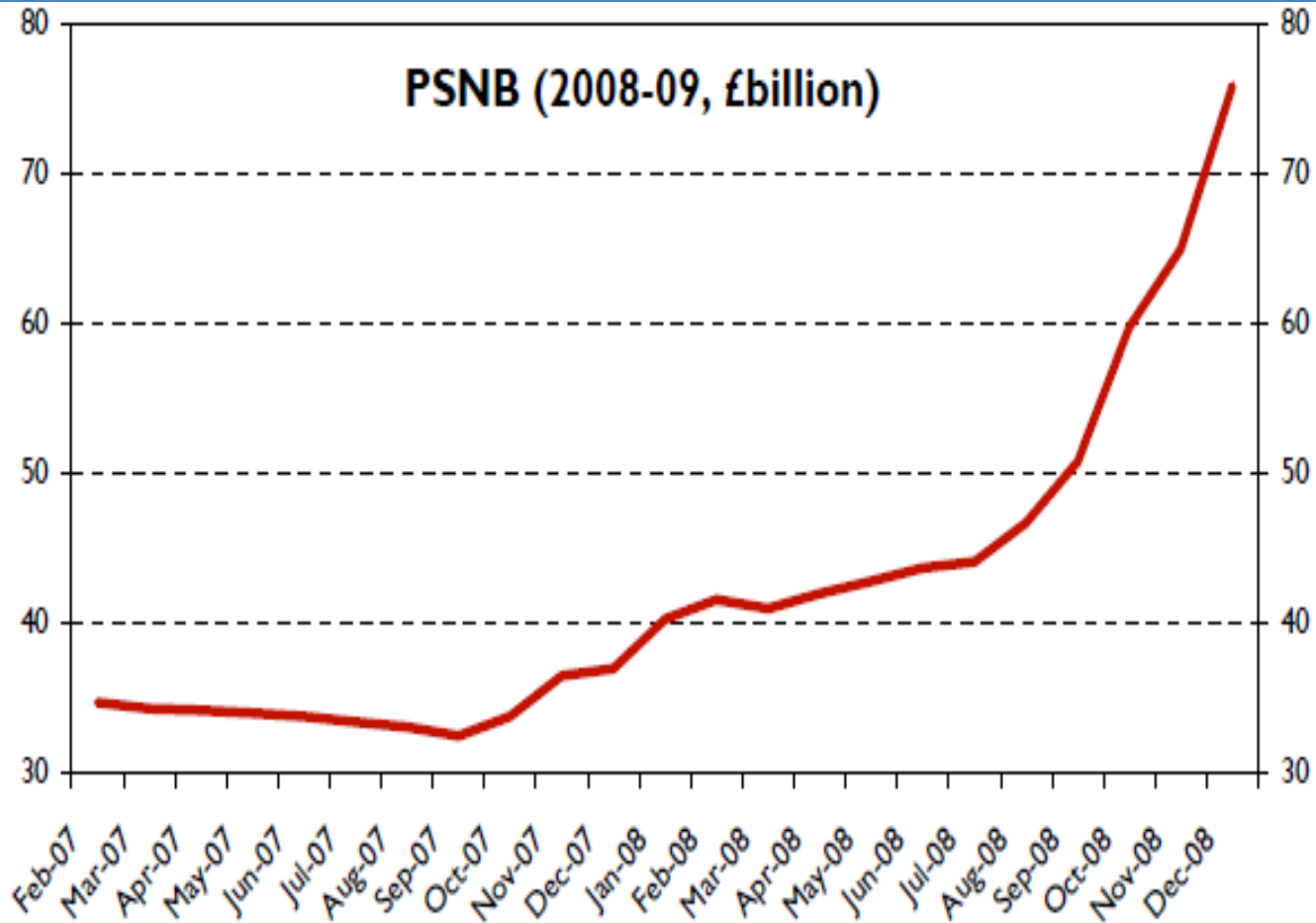
# What Mervyn King Said

- ‘Of all the many ways of organising banking, the worst is the one we have today.’

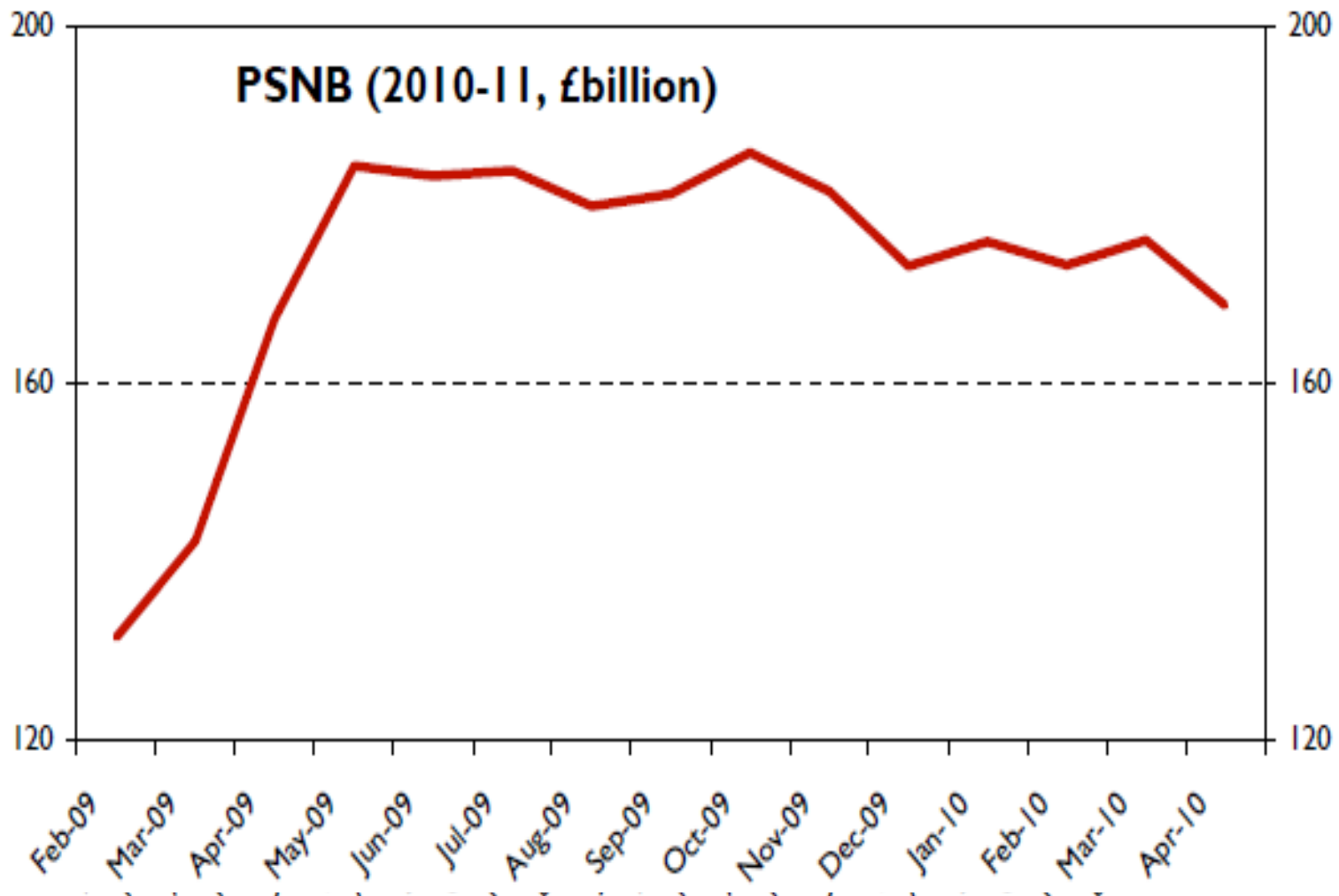


- ‘Unemployment is up, businesses have closed, and the direct and indirect costs to the taxpayer have resulted in fiscal deficits in several countries of over 10% of GDP – the largest peacetime deficits ever.’

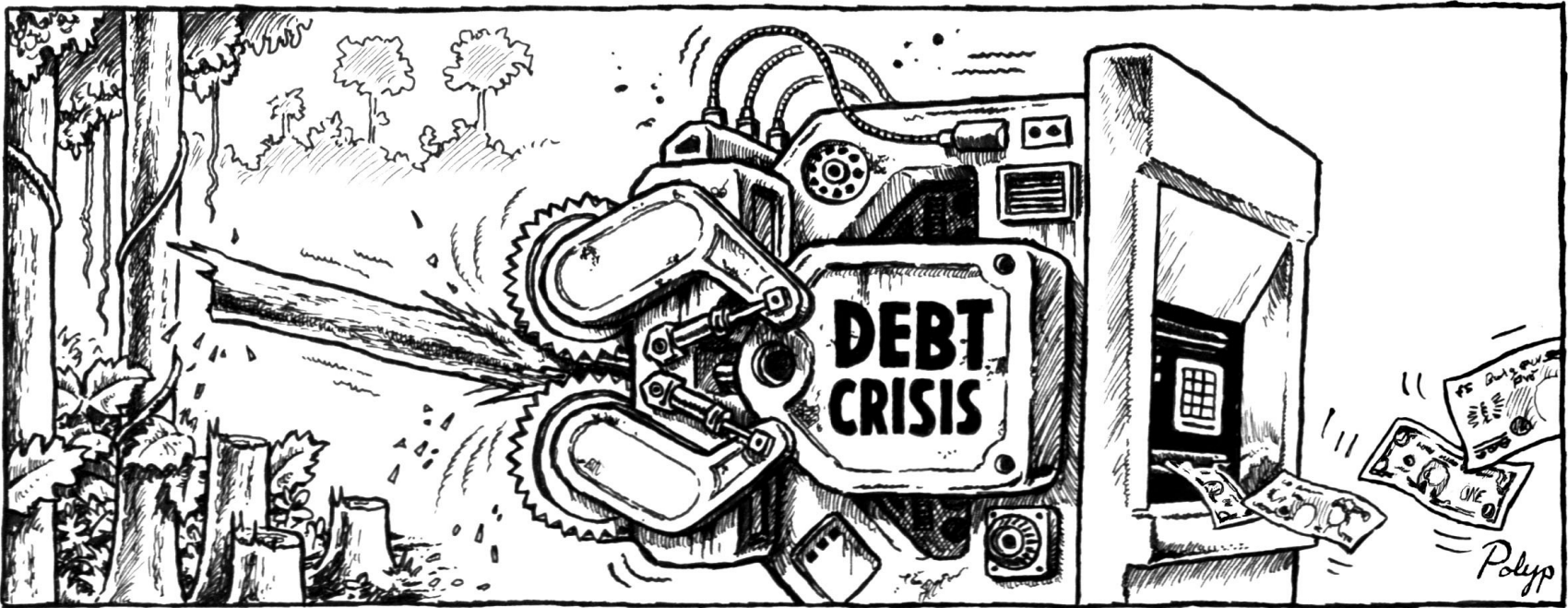
# Projected borrowing(PSNB), 17 Dec. 2009



# Projected borrowing(PSNB), 21 April



# And what he didn't say



- 97% of money is created as debt by banks:
- 95% of money transactions have no contact with real goods
- Allows people to make a claim on future value

# The Crises are the Same Crisis

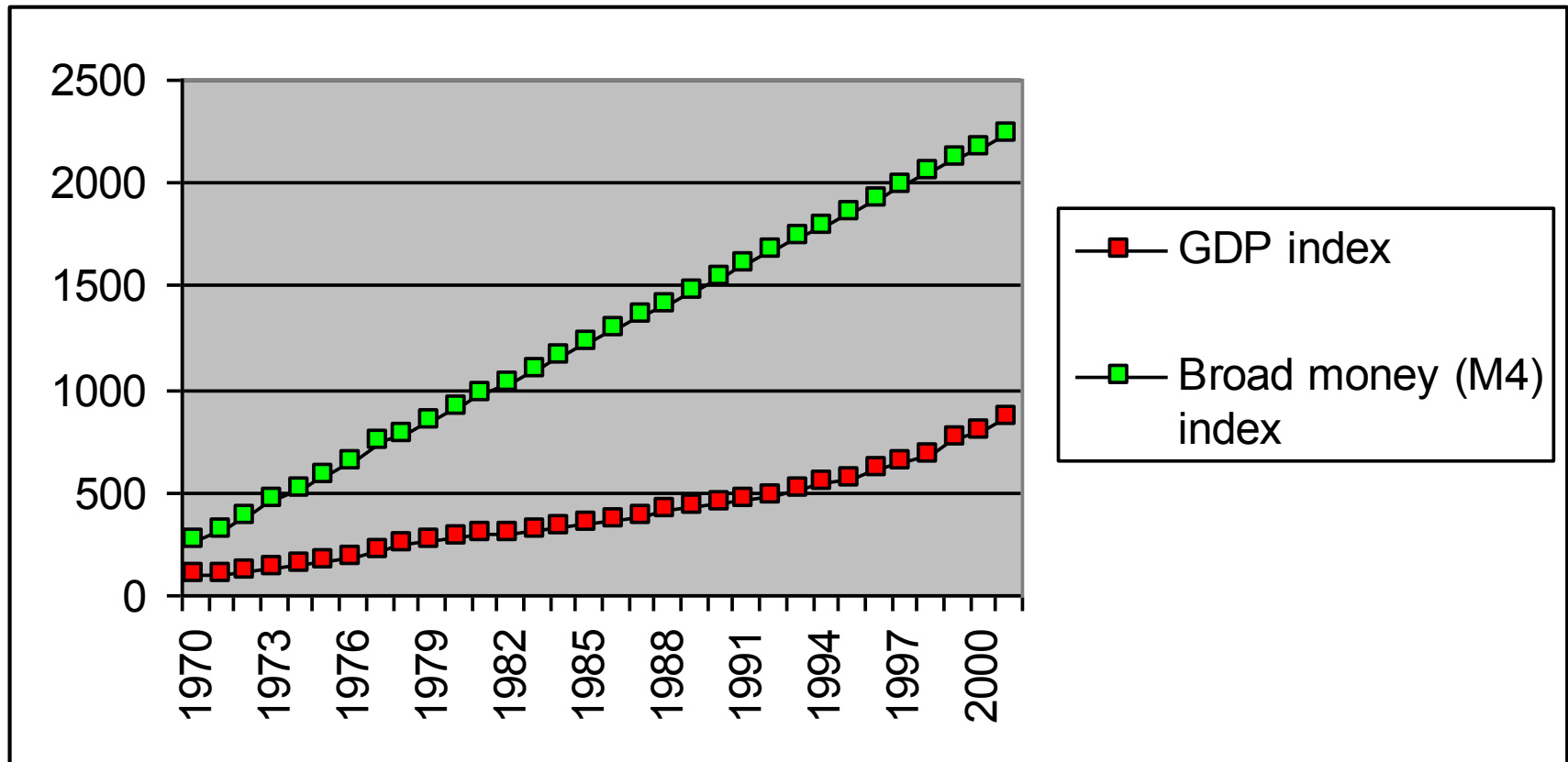
- ✘ Sustainability requires equality
- ✘ Sustainability requires financial stability, because debt-free money forces economic growth
- ✘ Debt requires inequality, because of interest transferring money from poor to rich



# Money is a store of value

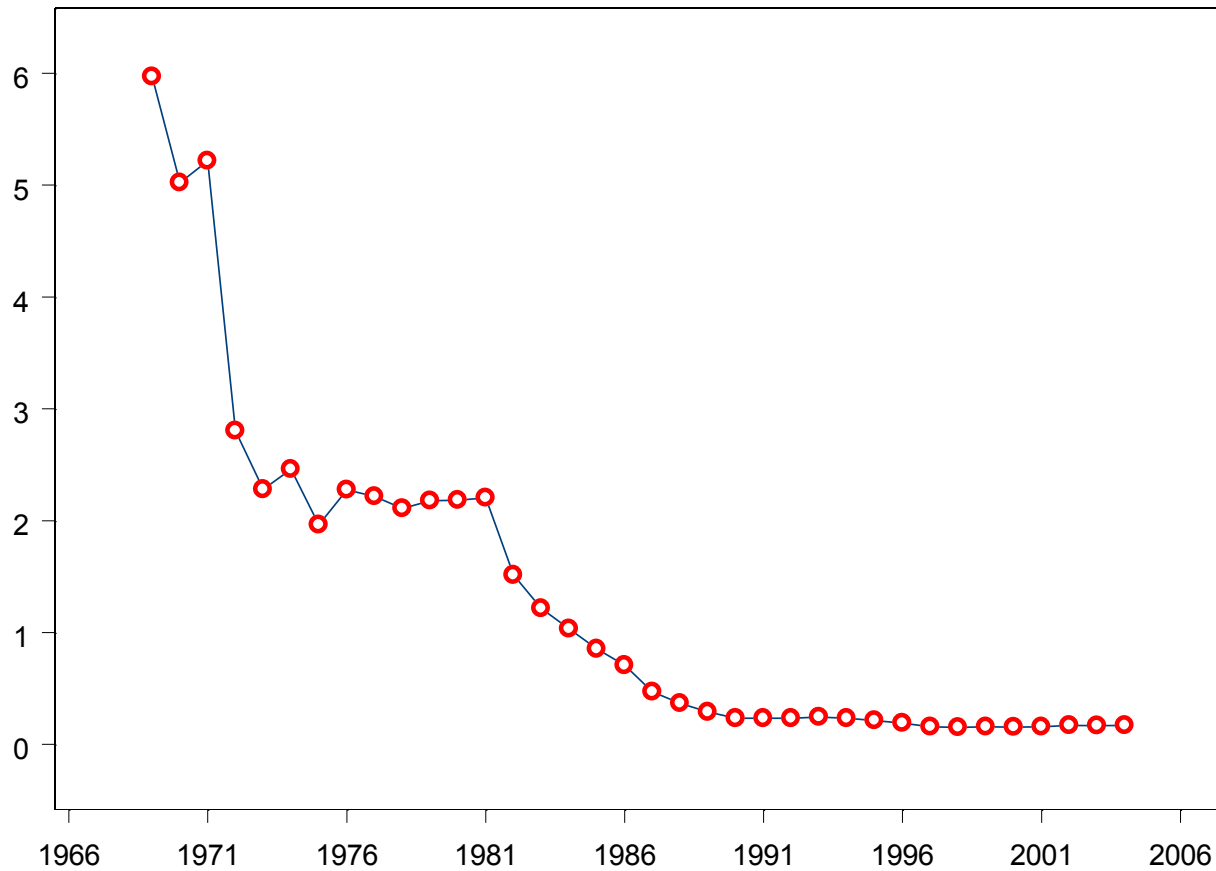
- Money made in one period can make a claim on goods and services in the future
- These goods and services use energy and resources
- The money supply is hugely increasing
- This is the driving force behind economic growth

# Distance between money and economic activity



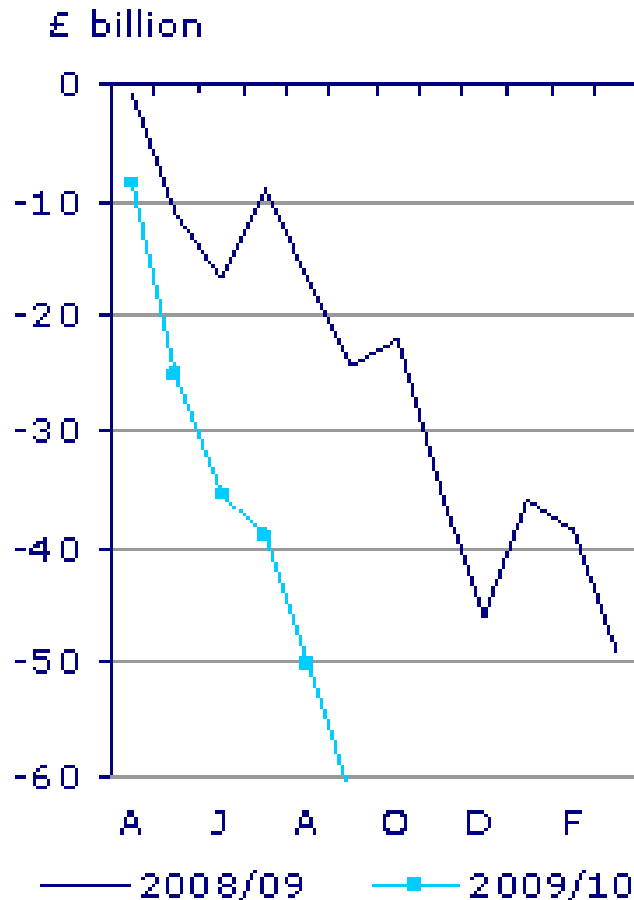


# Proportion of government to bank money in UK, 1968-2004

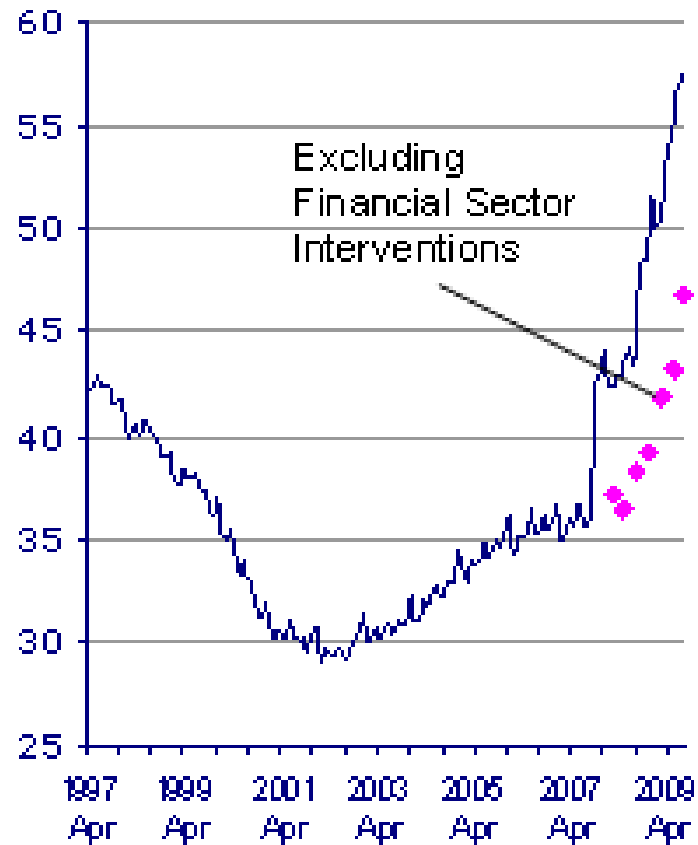


# UK public debt ballooning

**Cumulative public sector current budget**



**Net debt (as a percentage of GDP)**



# Policies

Money to be created as credit not debt

Tobin Tax on international currency transactions

Intention of monetary policy should be to  
balance money supply with level of  
economic activity

Money should be created as a public resource,  
not privately, by banks



# Can we design money to create a green economy?

- Shift consumption into the local economy?
- Encourage activity in the core economy?
- Counteract recessionary pressures?
- Reduce consumption?



# Velocity as well as quantity is important

- Quantity theory of money:
  - $MV = PT$
  - M is the quantity of money in the economy
  - V is the speed with which it circulates (number of times it is spent)
  - P = the price level
  - T = the number of transactions

# Can we change the velocity of circulation?

- Interest encourages people to hold money and slows it down
- Negative interest (demurrage) might speed it up
- Silvio Gesell (1862-1930)



# The Chiemgauer

- Uses principle of demurrage
- Electronic and paper money
- Back one-for-one by euros
- Can be exchanged back for a 5% fee
- Accepted by 150+ shops

**20 CHIEMGAUER**  
**CHIEMGAUER.INFO**  
Das regionale Zahlungsmittel in den Landkreisen Rosenheim + Traunstein  
**Chiemgauer-Verzeichnis, Auflage: 20.000 II. Quartal 2006**

**Trachtenverband mit Vision**  
Trachtenvereine pflegen das bayerische Brauchtum angefangen vom „Schuhplattler“, über die „bairische“ Sprache, Gesänge, Musik, Tänze, Kleidung und vieles mehr. In einem gemeinsamen Haus soll nun ein Informationszentrum für Trachtenvereine und Interessierte entstehen, in dem unter anderem die Trachtenvielfalt in Bayern präsentiert und eine Jugendbildungsstätte entstehen wird. Auf Initiative des Trachtenverbandes „Bayerischer Inngau“ können alle Mitglieder und Freunde des Bayerischen das gemeinsame Vorhaben der Bayerischen Trachtenvereine mit dem Chiemgauer fördern. Der Sitz des Trachtenverbandes Bayern ist übrigens in Traunstein, da dort seit 1859 der älteste Trachtenverband besteht. Allein in den Landkreisen Rosenheim und Traunstein sind insgesamt 48.000 Erwachsene dabei.

**Sinssee-Markt macht mit**  
Pünktlich zum Frühlingsbeginn öffnet der Sinssee-Markt seine Pforten und lädt alle Chiemgauer-Mitglieder herzlich ein, das Angebot der regionalen Solidargemeinschaft kennenzulernen. Der Markt in Baiersbach endet jeden Freitag von 14 bis 16 Uhr beim „Bauern“ in Baiersbach, Edlinger Str. 6B, statt. Eine weitere Gelegenheit gibt es auf dem Wochen- und Bauernmarkt auf dem Schloßberg, Rathausplatz 1, jeden Mittwoch von 9 bis 13 Uhr.

**Solaranteile zeichnen!**  
Der 3. Bauabschnitt des Bürger-Solarstromwerks im Prien am Chiemsee kommt ins Rollen, 40.000 Euro werden investiert, davon 10.000 über Chiemgauer-Anteile. Ein Anteil ist bereits ab 500 Chiemgauer möglich. Wie bei jedem Chiemgauer-Tausch können die Verbraucher über ihre Region auswählen, welcher Zweck mit 3% gefördert wird. Welche Investition kann sonst von sich behaupten, dass sie die Renditeerwartungen der Anleger erfüllt, ökologisch wertvoll ist, die regionale Wirtschaft fördert und dann noch gemeinnützige Zwecke in der Region unterstützt? Der Geschäftsführer der Priener Solargesellschaft, Herbert Langmann, informiert Sie gerne unter Tel. 08051-1382.

**11 Opernfestival**  
100 Jahre Mozart  
**AUGENBLICKE**  
Die Zauberflöte  
Don Carlos  
und vieles mehr!

**23. Juni - 6. August 2006**  
Karten im Chiemgauer bitte telefonisch vorbestellen!

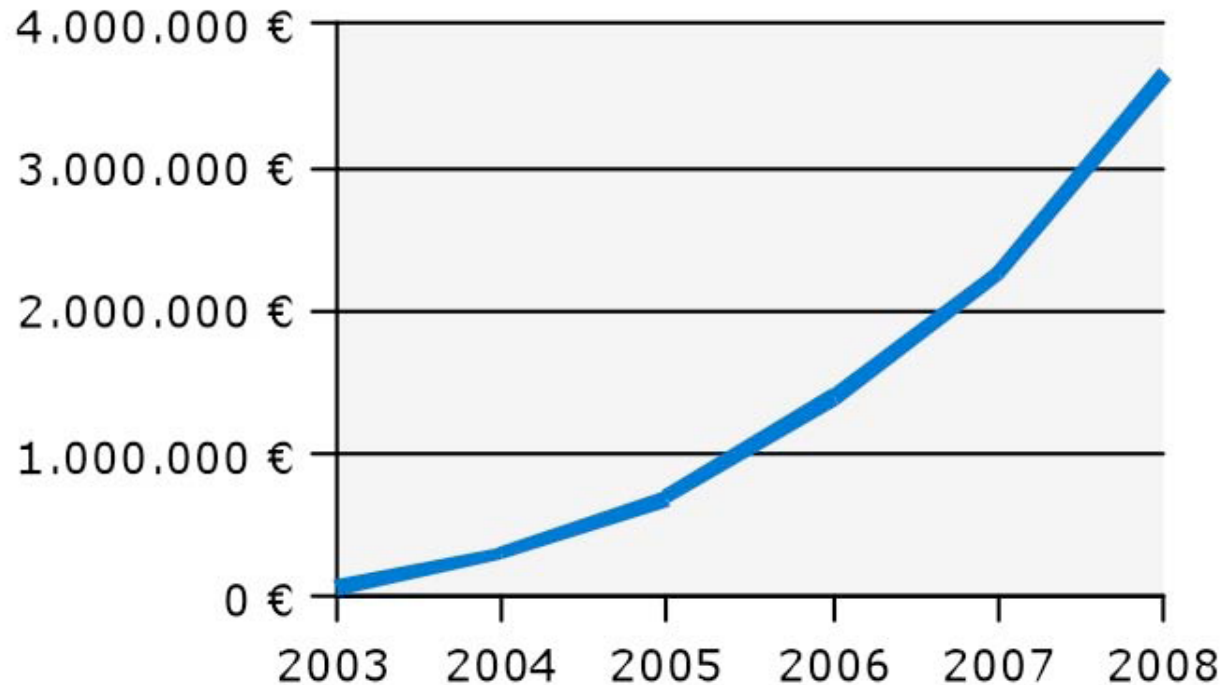
**Infos: Bei allen Chiemgauer-Ausgabestellen und im Internet unter [www.chiemgauer.info](http://www.chiemgauer.info)**





- <http://www.chiemgauer-regional.de/>

# Turnover of all participants



**2008 = 3 Mio. CH + 0.6 Mio. ST**

[http://www.uea.ac.uk/env/ijccr/pdfs/IJCCRvol13\(2009\)pp61-75Gelleri.pdf](http://www.uea.ac.uk/env/ijccr/pdfs/IJCCRvol13(2009)pp61-75Gelleri.pdf)

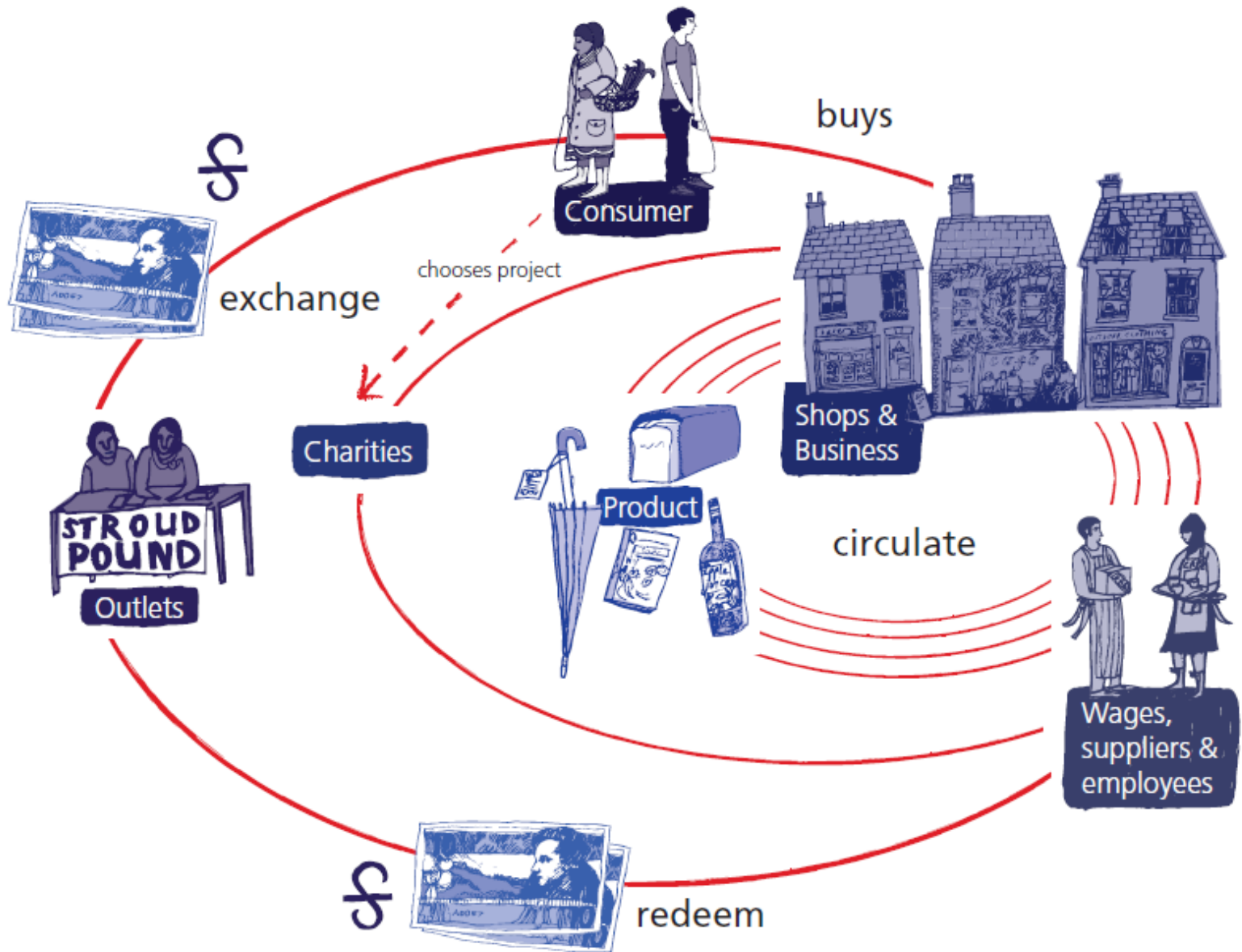
# About Stroud



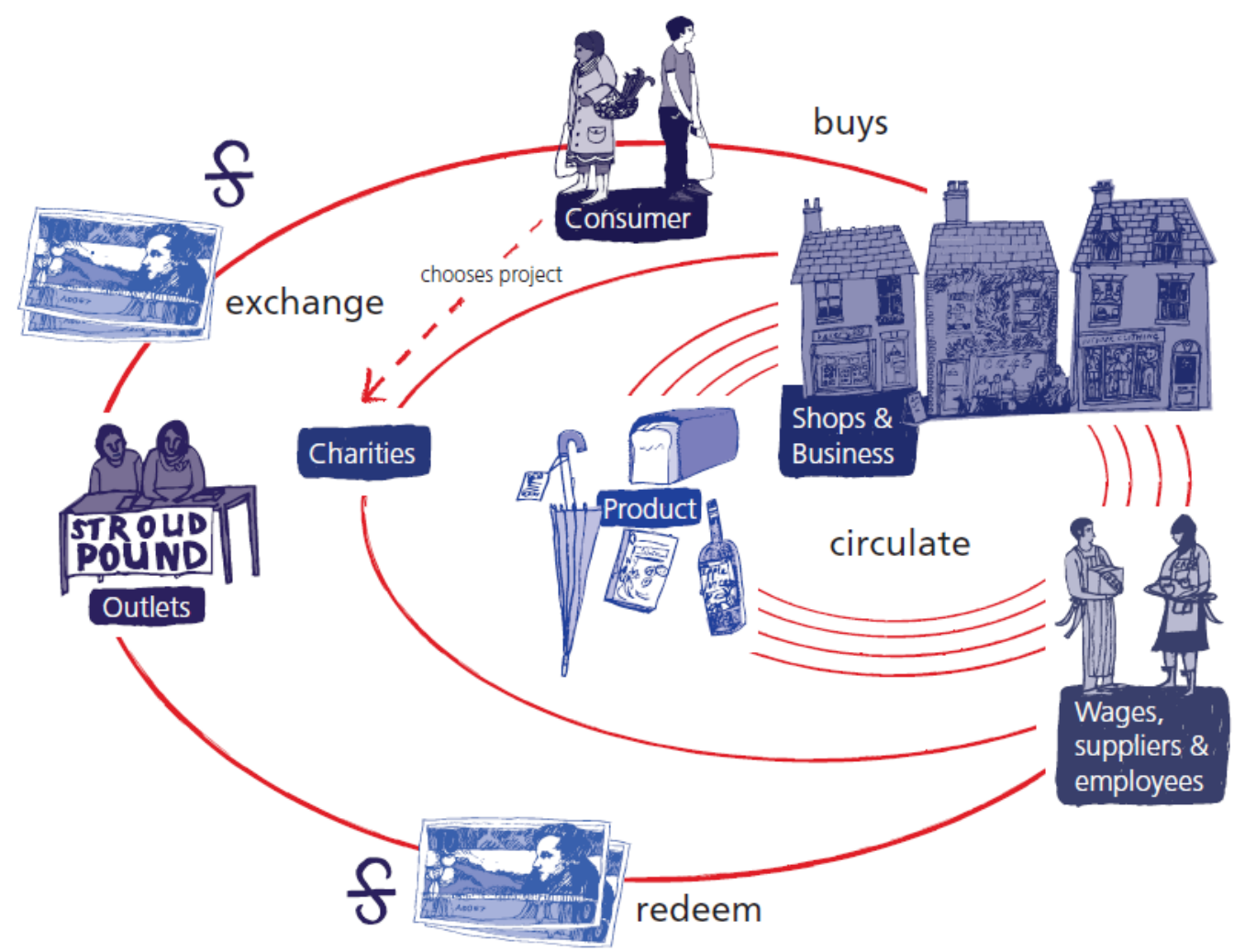
- Stroud is an exemplar sustainable community located in rural Gloucestershire some 30 miles North-East of Bristol, UK
- A former textile town, it suffered severe industrial restructuring in the second half of the 20<sup>th</sup> century
- Site of one of the UK's most successful LETS schemes (North, 2008)
- One of the first UK towns to register with the nascent Transition Network in September 2006

# How it works

- Issued by the co-operative on a one-for-one exchange basis for pounds sterling
- Businesses, consumers and charities are encouraged to join the scheme, although it is possible to pick the notes up in change and use them for purchasing
- When consumers buy Stroud Pounds a percentage of the value is donated to a local charity of their choice
- This is balanced by a 3% 'redemption' charge when businesses exchange the money back for sterling



# The Stroud Pound Roundabout



# Reinforcing the local economy

- 3% demurrage to increase velocity of circulation
- Identification with local economic themes
- Laurie Lee



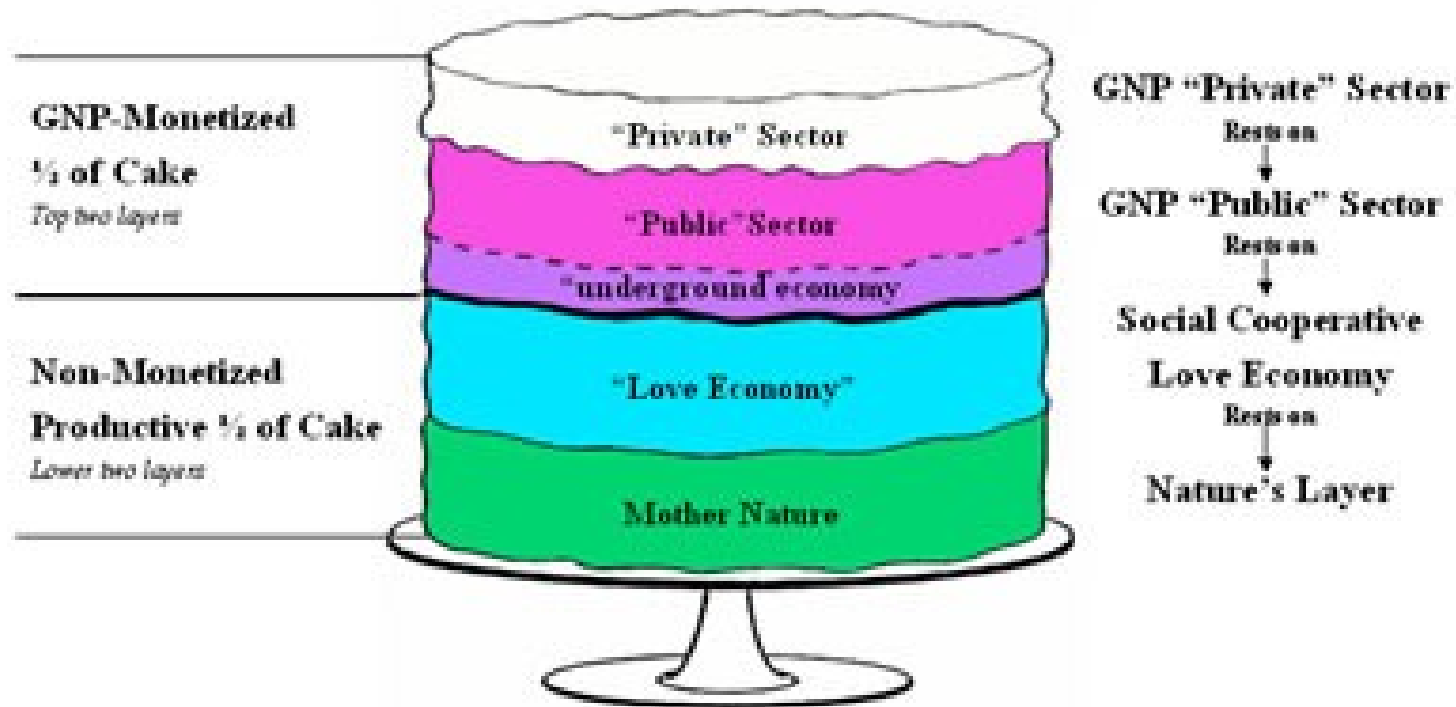
# Story after one year

- Launched in September 2009
- A total of £10,066 were exchanged for Stroud Pounds
- Slightly over half of those (£5940) had been redeemed
- £290 allocated to the ten local good causes which people had chosen. A year after the launch of the scheme SP4,126 were in circulation. The scheme had around 180 consumer members and 44 outlets or service providers where the local currency could be spent.



# Encourage activity in the core economy?

## Total Productive System of an Industrial Society (Layer Cake With Icing)



# Time Money or Service Credits



- ✱ Money denominated in hours: one hour, one credit
- ✱ Co-production social service ethos is crucial
- ✱ Balance does not matter – generational solidarity
- ✱ Connections made by a broker and by telephone
- ✱ Usually more successful when run by a social services agency
- ✱ Unlike LETS, does reach the poor/excluded/elderly